EXHIBIT 8

Assets

360 Property, Plant, and Equipment

360 Property, Plant, and Equipment
10 Overall

00 Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

Status

360-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Business	Amended	Accounting Standards Update No. 2017-01	01/05/2017
Business	Added	Accounting Standards Update No. 2014-09	05/28/2014
Collections	Added	Accounting Standards Update No. 2019-03	03/21/2019
Contract	Added	Accounting Standards Update No. 2014-09	05/28/2014
Customer	Added	Accounting Standards Update No. 2014-09	05/28/2014
Disposal Group	Amended	Accounting Standards Update No. 2014-08	04/10/2014
Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease Term	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessee	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessor	Added	Accounting Standards Update No. 2016-02	02/25/2016
Net Realizable Value	Added	Accounting Standards Update No. 2015-11	07/22/2015
Nonprofit Activity	Added	Accounting Standards Update No. 2014-09	05/28/2014
Not-for-Profit Entity	Added	Accounting Standards Update No. 2014-08	04/10/2014
Performance Obligation	Added	Accounting Standards Update No. 2016-02	02/25/2016
Public Business Entity	Amended	Maintenance Update 2017-06	04/07/2017
Public Business Entity	Amended	Maintenance Update 2016-11	06/27/2016
Public Business Entity	Added	Accounting Standards Update No. 2014-08	04/10/2014
Revenue	Added	Accounting Standards Update No. 2016-02	02/25/2016
Right-of-Use Asset	Added	Accounting Standards Update No. 2016-02	02/25/2016
Underlying Asset	Added	Accounting Standards Update No. 2016-02	02/25/2016
360-10-05-1	Amended	Accounting Standards Update No. 2016-02	02/25/2016
360-10-05-1	Amended	Accounting Standards Update No. 2014-09	05/28/2014
360-10-05-4	Amended	Accounting Standards Update No. 2014-08	04/10/2014
360-10-05-5	Amended	Accounting Standards Update No. 2014-08	04/10/2014
360-10-15-4	Amended	Accounting Standards Update No. 2016-02	02/25/2016
360-10-15-6	Added	Accounting Standards Update No. 2019-03	03/21/2019

360-10-30-8	Amended	Accounting Standards Update No. 2016-02	02/25/2016
360-10-35-7	Amended	Accounting Standards Update No. 2014-09	05/28/2014
360-10-35-39	Amended	Accounting Standards Update No. 2012-04	10/01/2012
360-10-35-41	Amended	Accounting Standards Update No. 2022-02	03/31/2022
360-10-40-1	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
360-10-40-2	Amended	Accounting Standards Update No. 2017-05	02/22/2017
360-10-40-2	Amended	Accounting Standards Update No. 2016-02	02/25/2016
360-10-40-2	Amended	Accounting Standards Update No. 2014-09	05/28/2014
360-10-40-3	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
360-10-40-3A	Amended	Accounting Standards Update No. 2017-05	02/22/2017
360-10-40-3B	Amended	Accounting Standards Update No. 2017-05	02/22/2017
360-10-40-3A through 3C	Added	Accounting Standards Update No. 2014-09	05/28/2014
360-10-40-5	Amended	Accounting Standards Update No. 2017-05	02/22/2017
360-10-45-3	Amended	Accounting Standards Update No. 2014-08	04/10/2014
360-10-45-5	Amended	Accounting Standards Update No. 2014-09	05/28/2014
360-10-45-5	Amended	Accounting Standards Update No. 2014-08	04/10/2014
360-10-45-14	Amended	Accounting Standards Update No. 2014-08	04/10/2014
360-10-45-15	Amended	Accounting Standards Update No. 2014-08	04/10/2014
360-10-50-3	Amended	Accounting Standards Update No. 2014-08	04/10/2014
360-10-50-3A	Added	Accounting Standards Update No. 2014-08	04/10/2014
360-10-50-4	Added	Accounting Standards Update No. 2014-04	01/17/2014
360-10-55-18A	Added	Accounting Standards Update No. 2014-08	04/10/2014
360-10-55-21	Amended	Accounting Standards Update No. 2015-11	07/22/2015
360-10-55-43	Amended	Accounting Standards Update No. 2016-02	02/25/2016
360-10-55-50 through 55-54	Added	Accounting Standards Update No. 2012-04	10/01/2012
360-10-60-1	Amended	Accounting Standards Update No. 2014-09	05/28/2014

05 Overview and Background

General Note:The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

360-10-05-1 The Property, Plant, and Equipment Topic includes the following Subtopics:

a. Overall
b. Real Estate Sales—Sale-Leaseback Accounting.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

The Property, Plant, and Equipment Topic includes the following Subtopic:

a. Overall

b. Subparagraph superseded by Accounting Standards Update No. 2016-02.

360-10-05-2 The guidance in the Overall Subtopic is presented in the following two Subsections:

a. The General Subsections address the accounting and reporting for property, plant, and equipment, including guidance for accumulated depreciation.

b. The Impairment or Disposal of Long-Lived Assets Subsections retain the pervasive guidance for recognizing and measuring the impairment of long-lived assets and for long-lived assets to be disposed of.

360-10-05-3 Property, plant, and equipment typically consist of long-lived tangible assets used to create and distribute an entity's products and services and include:

a. Land and land improvements

b. Buildings

c. Machinery and equipment

d. Furniture and fixtures.

Impairment or Disposal of Long-Lived Assets

360-10-05-4 The Impairment or Disposal of Long-Lived Assets Subsections provide guidance for:

a. Recognition and measurement of the impairment of long-lived assets to be held and used

b. Measurement of long-lived assets to be disposed of by sale

c. Disclosures about the impairment or disposal of long-lived assets and disposals of individually significant components of an entity.

360-10-05-5 For long-lived assets disposed of or classified as held for sale, different presentation and disclosures are required depending on the nature of the disposal. If the long-lived assets are a significant component of an entity, more extensive disclosures are required. Additionally, if the component of an entity meets the definition of discontinued operation in paragraph 205-20-45-1B, an entity shall refer to Subtopic 205-20 for the presentation and disclosure requirements for discontinued operations (see the flowchart in paragraph 360-10-55-18A for an illustration).

360-10-05-6 This Subsection provides guidance that focuses on developing estimates of future cash flows used to test for recoverability, including the:

a. Cash flow estimation approach

b. Cash flow estimation period

c. Types of asset-related expenditures that should be considered in developing estimates of future cash flows.

15 Scope and Scope Exceptions

ⓘ **General Note**:The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are financial instruments. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Overall Guidance

360-10-15-1 The General Subsection of this Section establishes the pervasive scope for this Subtopic, with specific exceptions noted in the other Subsections of this Section.

> Entities

360-10-15-2 The guidance in this Subtopic applies to all entities.

Impairment or Disposal of Long-Lived Assets

> Overall Guidance

360-10-15-3 The Impairment or Disposal of Long-Lived Assets Subsections follow the same Scope and Scope Exceptions as outlined in the General Subsection of this Subtopic, see paragraph 360-10-15-1, with specific transaction exceptions noted below.

> Transactions

360-10-15-4 The guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the following transactions and activities:

a. Except as indicated in (b) and the following paragraph, all of the transactions and activities related to recognized long-lived assets of an entity to be held and used or to be disposed of, including:

1. Capital leases of lessees
2. Long-lived assets of lessors subject to operating leases
3. Proved oil and gas properties that are being accounted for using the successful-efforts method of accounting
4. Long-term prepaid assets.

b. The following transactions and activities related to assets and liabilities that are considered part of an asset group or a disposal group:

1. If a long-lived asset (or assets) is part of a group that includes other assets and liabilities not covered by the Impairment or Disposal of Long-Lived Assets Subsections, the guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the group. In those situations, the unit of accounting for the long-lived asset is its group. For a long-lived asset or assets to be held and used, that group is referred to as an asset group. For a long-lived asset or assets to be disposed of by sale or otherwise, that group is referred to as a disposal group. Examples of liabilities included in a disposal group are legal obligations that transfer with a long-lived asset, such as certain environmental obligations, and obligations that, for business reasons, a

potential buyer would prefer to settle when assumed as part of a group, such as warranty obligations that relate to an acquired customer base.

2. The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not change generally accepted accounting principles (GAAP) applicable to those other individual assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by the Impairment or Disposal of Long-Lived Assets Subsections that are included in such groups.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

The guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the following transactions and activities:

a. Except as indicated in (b) and the following paragraph, all of the transactions and activities related to recognized long-lived assets of an entity to be held and used or to be disposed of, including:

1. Right-of-use assets of lessees

2. Long-lived assets of lessors subject to operating leases

3. Proved oil and gas properties that are being accounted for using the successful-efforts method of accounting

4. Long-term prepaid assets.

b. The following transactions and activities related to assets and liabilities that are considered part of an asset group or a disposal group:

1. If a long-lived asset (or assets) is part of a group that includes other assets and liabilities not covered by the Impairment or Disposal of Long-Lived Assets Subsections, the guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the group. In those situations, the unit of accounting for the long-lived asset is its group. For a long-lived asset or assets to be held and used, that group is referred to as an asset group. For a long-lived asset or assets to be disposed of by sale or otherwise, that group is referred to as a disposal group. Examples of liabilities included in a disposal group are legal obligations that transfer with a long-lived asset, such as certain environmental obligations, and obligations that, for business reasons, a potential buyer would prefer to settle when assumed as part of a group, such as warranty obligations that relate to an acquired customer base.

2. The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not change generally accepted accounting principles (GAAP) applicable to those other individual assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by the Impairment or Disposal of Long-Lived Assets Subsections that are included in such groups.

360-10-15-5 The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not apply to the following transactions and activities:

a. Goodwill

b. Intangible assets not being amortized that are to be held and used

c. Servicing assets

d. Financial instruments, including investments in equity securities accounted for under the cost or equity method

e. Deferred policy acquisition costs

f. Deferred tax assets

g. Unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting

h. Oil and gas properties that are accounted for using the full-cost method of accounting as prescribed by the Securities and Exchange Commission (SEC) (see Regulation S-X, Rule 4-10, Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975)

i. Certain other long-lived assets for which the accounting is prescribed elsewhere in the standards:

1. For guidance on financial reporting in the record and music industry, see Topic 928.

2. For guidance on financial reporting in the broadcasting industry, see Topic 920.

3. For guidance on accounting for the costs of computer software to be sold, leased, or otherwise marketed, see Subtopic 985-20.

4. For guidance on accounting for abandonments and disallowances of plant costs for regulated entities, see Subtopic 980-360.

> Entities Holding Collection Items

360-10-15-6 Entities that hold collections shall follow the accounting and disclosure requirements in Subtopic 958-360 on not-for-profit entities—property, plant, and equipment.

20 Glossary

General Note:The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Activities

The term activities is to be construed broadly. It encompasses physical construction of the asset. In addition, it includes all the steps required to prepare the asset for its intended use. For example, it includes administrative and technical activities during the preconstruction stage, such as the development of plans or the process of obtaining permits from governmental authorities. It also includes activities undertaken after construction has begun in order to overcome unforeseen obstacles, such as technical problems, labor disputes, or litigation.

Asset Group

An asset group is the unit of accounting for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

Bargain Purchase Option

A provision allowing the lessee, at his option, to purchase the leased property for a price that is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that exercise of the option appears, at lease inception, to be reasonably assured.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Glossary term superseded by Accounting Standards Update No. 2016-02.

Bargain Renewal Option

A provision allowing the lessee, at his option, to renew the lease for a rental sufficiently lower than the fair rental of the property at the date the option becomes exercisable that exercise of the option appears, at lease inception, to be reasonably assured. Fair rental of a property in this context shall mean the expected rental for equivalent property under similar terms and conditions.

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
Glossary term superseded by Accounting Standards Update No. 2016-02.

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

Collections

Works of art, historical treasures, or similar assets that meet all of the following criteria:

a. They are held for public exhibition, education, or research in furtherance of public service rather than financial gain.

b. They are protected, kept unencumbered, cared for, and preserved.

c. They are subject to an organizational policy that requires the use of proceeds from items that are sold to be for the acquisitions of new collection items, the direct care of existing collections, or both.

Collections generally are held by museums; botanical gardens; libraries; aquariums; arboretums; historic sites; planetariums; zoos; art galleries; nature, science, and technology centers; and similar educational, research, and public service organizations that have those divisions; however, the definition is not limited to those entities nor does it apply to all items held by those entities.

Component of an Entity

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Disposal Group

A disposal group for a long-lived asset or assets to be disposed of by sale or otherwise represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may include a discontinued operation along with other assets and liabilities that are not part of the discontinued operation.

Firm Purchase Commitment

A firm purchase commitment is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that meets both of the following conditions:

a. It specifies all significant terms, including the price and timing of the transaction.

b. It includes a disincentive for nonperformance that is sufficiently large to make performance probable.

Impairment

Impairment is the condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value.

Indirectly Related to the Leased Property

The provisions or conditions that in substance are guarantees of the lessor's debt or loans to the lessor by the lessee that are related to the leased property but are structured in such a manner that they do not represent a direct guarantee or loan. Examples include a party related to the lessee guaranteeing the lessor's debt on behalf of the lessee, or the lessee financing the lessor's purchase of the leased asset using collateral other than the leased property.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Glossary term superseded by Accounting Standards Update No. 2016-02.

Lease

An agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets) usually for a stated period of time.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lease Term

The fixed noncancelable lease term plus all of the following, except as noted in the following paragraph:

a. All periods, if any, covered by bargain renewal options.

b. All periods, if any, for which failure to renew the lease imposes a penalty on the lessee in such amount that a renewal appears, at lease inception, to be reasonably assured.

c. All periods, if any, covered by ordinary renewal options during which any of the following conditions exist:

1. A guarantee by the lessee of the lessor's debt directly or indirectly related to the leased property is expected to be in effect.

2. A loan from the lessee to the lessor directly or indirectly related to the leased property is expected to be outstanding.

d. All periods, if any, covered by ordinary renewal options preceding the date as of which a bargain purchase option is exercisable.

e. All periods, if any, representing renewals or extensions of the lease at the lessor's option.

The lease term shall not be assumed to extend beyond the date a bargain purchase option becomes exercisable.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
The noncancellable period for which a lessee has the right to use an underlying asset, together with all of the following:

a. Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option

b. Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option

c. Periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor.

Lessee

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration.

Lessor

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
An entity that enters into a contract to provide the right to use an underlying asset for a period of time in exchange for consideration.

Net Realizable Value

Estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Noncancelable Lease Term

That portion of the lease term that is cancelable only under any of the following conditions:

a. Upon the occurrence of some remote contingency

b. With the permission of the lessor

c. If the lessee enters into a new lease with the same lessor

d. If the lessee incurs a penalty in such amount that continuation of the lease appears, at inception, reasonably assured.

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
Glossary term superseded by Accounting Standards Update No. 2016-02.

Nonprofit Activity

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Operating Segment

A component of a public entity. See Section 280-10-50 for additional guidance on the definition of an operating segment.

Penalty

Any requirement that is imposed or can be imposed on the lessee by the lease agreement or by factors outside the lease agreement to do any of the following:

a. Disburse cash

b. Incur or assume a liability

c. Perform services

d. Surrender or transfer an asset or rights to an asset or otherwise forego an economic benefit, or suffer an economic detriment. Factors to consider in determining whether an economic detriment may be incurred include, but are not limited to, all of the following:

1. The uniqueness of purpose or location of the property

2. The availability of a comparable replacement property

3. The relative importance or significance of the property to the continuation of the lessee's line of business or service to its customers

4. The existence of leasehold improvements or other assets whose value would be impaired by the lessee vacating or discontinuing use of the leased property

5. Adverse tax consequences

6. The ability or willingness of the lessee to bear the cost associated with relocation or replacement of the leased property at market rental rates or to tolerate other parties using the leased property.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Any requirement that is imposed or can be imposed on the lessee by the lease agreement or by factors outside the lease agreement to do any of the following:

a. Disburse cash

b. Incur or assume a liability

c. Perform services

d. Surrender or transfer an asset or rights to an asset or otherwise forego an economic benefit, or suffer an economic detriment. Factors to consider in determining whether an economic detriment may be incurred include, but are not limited to, all of the following:

1. The uniqueness of purpose or location of the underlying asset

2. The availability of a comparable replacement asset

3. The relative importance or significance of the underlying asset to the continuation of the lessee's line of business or service to its customers

4. The existence of leasehold improvements or other assets whose value would be impaired by the lessee vacating or discontinuing use of the underlying asset

5. Adverse tax consequences

6. The ability or willingness of the lessee to bear the cost associated with relocation or replacement of the underlying asset at market rental rates or to tolerate other parties using the underlying asset.

Performance Obligation

A promise in a contract with a customer to transfer to the customer either:

a. A good or service (or a bundle of goods or services) that is distinct

b. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Probable

The future event or events are likely to occur.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Reporting Unit

The level of reporting at which goodwill is tested for impairment. A reporting unit is an operating segment or one level below an operating segment (also known as a component).

Revenue

Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Right-of-Use Asset

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
An asset that represents a lessee's right to use an underlying asset for the lease term.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Underlying Asset

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
An asset that is the subject of a lease for which a right to use that asset has been conveyed to a lessee. The underlying asset could be a physically distinct portion of a single asset.

25 Recognition

General Note:The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General Note for Fair Value Option:Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

360-10-25-1 See the Impairment or Disposal of Long-Lived Assets Subsection of Section 360-10-45 for a discussion of held-for-use and held-for-sale classifications of assets and asset groups.

> Acquisition of the Residual Value in Leased Assets by a Third Party

360-10-25-2 This Section provides guidance on how a third-party entity shall account for the following:

a. The acquisition from a lessor of the unconditional right to own and possess, at the end of the lease term, an asset subject to a lease

b. The acquisition of the right to receive all, or a portion, of the proceeds from the sale of a leased asset at the end of the lease term.

360-10-25-3 At the date the rights in the preceding paragraph are acquired, both transactions involve a right to receive, at the end of the lease term, all, or a portion, of any future benefit to be derived from the leased asset and shall be accounted for as the acquisition of an asset. Both transactions are referred to as the acquisition of an interest in the residual value of a leased asset.

360-10-25-4 An interest in the residual value of a leased asset shall be recorded as an asset at the date the right is acquired.

> Planned Major Maintenance Activities

360-10-25-5 The use of the accrue-in-advance (accrual) method of accounting for planned major maintenance activities is prohibited in annual and interim financial reporting periods.

> Business Combinations

360-10-25-6 See Section 805-20-25 for general guidance related to the recognition of the acquisition of property, plant, and equipment in a business combination.

30 Initial Measurement

ⓘ **General Note**:The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

> Historical Cost Including Interest

360-10-30-1 Paragraph 835-20-05-1 states that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. As indicated in that paragraph, if an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures for the asset is a part of the historical cost of acquiring the asset.

360-10-30-2 See the glossary for a definition of activities necessary to bring an asset to the condition and location necessary for its intended use.

> Acquisition of the Residual Value in Leased Assets

360-10-30-3 An interest in the residual value of a leased asset recognized under paragraph 360-10-25-4 shall be measured initially at the amount of cash disbursed, the fair value of other consideration given, and the present value of liabilities assumed.

360-10-30-4 The fair value of the interest in the residual value of the leased asset at the date of the agreement shall be used to measure its cost if that fair value is more clearly evident than the fair value of assets surrendered, services rendered, or liabilities assumed.

> Other Asset Acquisition Concepts

360-10-30-5 The following paragraphs contain links to other Subtopics that contain guidance on acquiring property, plant, and equipment under other concepts. The following may not represent a complete list of other locations containing property, plant, and equipment acquisition guidance.

· > Business Combinations

360-10-30-6 See Section 805-20-25 for general guidance related to assets acquired in a business combination.

· > Accounting for Nonmonetary Transactions

360-10-30-7 See paragraphs 845-10-30-1 through 30-10 for guidance related to assets acquired in a nonmonetary exchange.

· > Accounting for Leases

360-10-30-8 See Subtopic 840-30 for guidance related to assets acquired under a capital lease.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
See Subtopic 842-20 for guidance related to assets acquired under a lease.

35 Subsequent Measurement

General Note:The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

360-10-35-1 This Subsection addresses depreciation of property, plant, and equipment and the post acquisition accounting for an interest in the residual value of a leased asset.

> Depreciation

360-10-35-2 This guidance addresses the concept of depreciation accounting and the various factors to consider in selecting the related periods and methods to be used in such accounting.

360-10-35-3 Depreciation expense in financial statements for an asset shall be determined based on the asset's useful life.

360-10-35-4 The cost of a productive facility is one of the costs of the services it renders during its useful economic life. Generally accepted accounting principles (GAAP) require that this cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.

360-10-35-5 See paragraph 360-10-35-20 for a discussion of depreciation of a new cost basis after recognition of an impairment loss.

360-10-35-6 See paragraph 360-10-35-43 for a discussion of cessation of depreciation on long-lived assets classified as held for sale.

· > Declining Balance Method

360-10-35-7 The declining-balance method is an example of one of the methods that meet the requirements of being systematic and rational. If the expected productivity of the asset or ability of the asset to generate revenue is relatively greater during the earlier years of its life, or maintenance charges tend to increase during later years, the declining-balance method may provide the most satisfactory allocation of cost. That conclusion also applies to other methods, including the sum-of-the-years'-digits method, that produce substantially similar results.

· > Loss or Damage Experience as a Factor in Estimating Depreciable Lives

360-10-35-8 In practice, experience regarding loss or damage to depreciable assets is in some cases one of the factors considered in estimating the depreciable lives of a group of depreciable assets, along with such other factors as wear and tear, obsolescence, and maintenance and replacement policies.

· > Unacceptable Depreciation Methods

360-10-35-9 If the number of years specified by the Accelerated Cost Recovery System of the Internal Revenue Service (IRS) for recovery deductions for an asset does not fall within a reasonable range of the asset's useful life, the recovery deductions shall not be used as depreciation expense for financial reporting.

360-10-35-10 Annuity methods of depreciation are not acceptable for entities in general.

· > Accounting Changes

360-10-35-11 See paragraphs 250-10-45-17 through 45-20 for guidance on the accounting and presentation of changes in methods of depreciation.

360-10-35-12 Paragraph not used.

> Adjusting the Residual Value in Leased Assets by a Third Party

360-10-35-13 The following paragraph provides guidance on how an entity acquiring an interest in the residual value of a leased asset shall account for that asset during the lease term.

360-10-35-14 An entity acquiring an interest in the residual value of any leased asset, irrespective of the classification of the related lease by the lessor, shall not recognize increases to the asset's estimated value over the remaining term of the related lease, and the asset shall be reported at no more than its acquisition cost until sale or disposition. If it is subsequently determined that the fair value of the residual value of a leased asset has declined below the carrying amount of the acquired interest and that decline is other than temporary, the asset shall be written down to fair value, and the amount of the write-down shall be recognized as a loss. That fair value becomes the asset's new carrying amount, and the asset shall not be increased for any subsequent increase in its fair value before its sale or disposition.

Impairment or Disposal of Long-Lived Assets

360-10-35-15 There are unique requirements of accounting for the impairment or disposal of long-lived assets to be held and used or to be disposed of. Although this guidance deals with matters which may lead to the ultimate disposition of assets, it is included in this Subsection because it describes the measurement and classification of assets to be held and used and assets held for disposal before actual disposition and derecognition. See the Impairment or Disposal of Long-Lived Assets Subsection of Section 360-10-40 for a discussion of assets or asset groups for which disposition has taken place in an exchange or distribution to owners.

> Long-Lived Assets Classified as Held and Used

360-10-35-16 This guidance addresses how long-lived assets or asset groups that are intended to be held and used in an entity's business shall be reviewed for impairment.

· > Measurement of an Impairment Loss

360-10-35-17 An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use (see paragraph 360-10-35-33) or under development (see paragraph 360-10-35-34). An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.

· · > Assets Subject to Asset Retirement Obligations

360-10-35-18 In applying the provisions of this Subtopic, the carrying amount of the asset being tested for impairment shall include amounts of capitalized asset retirement costs. Estimated future cash flows related to the liability for an asset retirement obligation that has been recognized in the financial statements shall be excluded from both of the following:

a. The undiscounted cash flows used to test the asset for recoverability
b. The discounted cash flows used to measure the asset's fair value.

360-10-35-19 If the fair value of the asset is based on a quoted market price and that price considers the costs that will be incurred in retiring that asset, the quoted market price shall be increased by the fair value of the asset retirement obligation for purposes of measuring impairment.

· > Adjusted Carrying Amount Becomes New Cost Basis

360-10-35-20 If an impairment loss is recognized, the adjusted carrying amount of a long-lived asset shall be its new cost basis. For a depreciable long-lived asset, the new cost basis shall be depreciated (amortized) over the remaining useful life of that asset. Restoration of a previously recognized impairment loss is prohibited.

· > When to Test a Long-Lived Asset for Recoverability

360-10-35-21 A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

a. A significant decrease in the market price of a long-lived asset (asset group)

b. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition

c. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator

d. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)

e. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)

f. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term *more likely than not* refers to a level of likelihood that is more than 50 percent.

360-10-35-22 When a long-lived asset (asset group) is tested for recoverability, it also may be necessary to review depreciation estimates and method as required by Topic 250 or the amortization period as required by Topic 350. Paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 address the accounting for changes in estimates, including changes in the method of depreciation, amortization, and depletion. Paragraphs 350-30-35-1 through 35-5 address the determination of the useful life of an intangible asset. Any revision to the remaining useful life of a long-lived asset resulting from that review also shall be considered in developing estimates of future cash flows used to test the asset (asset group) for recoverability (see paragraphs 360-10-35-31 through 35-32). However, any change in the accounting method for the asset resulting from that review shall be made only after applying this Subtopic.

· > Grouping Long-Lived Assets Classified as Held and Used

360-10-35-23 For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. However, an impairment loss, if any, that results from applying this Subtopic shall reduce only the carrying amount of a long-lived asset or assets of the group in accordance with paragraph 360-10-35-28.

360-10-35-24 In limited circumstances, a long-lived asset (for example, a corporate headquarters facility) may not have identifiable cash flows that are largely independent of the cash flows of other assets and liabilities and of other asset groups. In those circumstances, the asset group for that long-lived asset shall include all assets and liabilities of the entity.

360-10-35-25 In limited circumstances, an asset group will include all assets and liabilities of the entity. For example, the cost of operating assets such as corporate headquarters or centralized research facilities may be funded by revenue-producing

activities at lower levels of the entity. Accordingly, in limited circumstances, the lowest level of identifiable cash flows that are largely independent of other asset groups may be the entity level. See Example 4 (paragraph 360-10-55-35).

· · > Effect of Goodwill when Grouping

360-10-35-26 Goodwill shall be included in an asset group to be tested for impairment under this Subtopic only if the asset group is or includes a reporting unit. Goodwill shall not be included in a lower-level asset group that includes only part of a reporting unit. Estimates of future cash flows used to test that lower-level asset group for recoverability shall not be adjusted for the effect of excluding goodwill from the group. The term *reporting unit* is defined in Topic 350 as the same level as or one level below an operating segment. That Topic requires that goodwill be tested for impairment at the reporting unit level.

360-10-35-27 Other than goodwill, the carrying amounts of any assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by this Subtopic that are included in an asset group shall be adjusted in accordance with other applicable generally accepted accounting principles (GAAP) before testing the asset group for recoverability. Paragraph 350-20-35-31 requires that goodwill be tested for impairment only after the carrying amounts of the other assets of the reporting unit, including the long-lived assets covered by this Subtopic, have been tested for impairment under other applicable accounting guidance.

· > Allocating Impairment Losses to an Asset Group

360-10-35-28 An impairment loss for an asset group shall reduce only the carrying amounts of a long-lived asset or assets of the group. The loss shall be allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort. See Example 1 (paragraph 360-10-55-20) for an illustration of this guidance.

· > Estimates of Future Cash Flows Used to Test a Long-Lived Asset for Recoverability

360-10-35-29 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall include only the future cash flows (cash inflows less associated cash outflows) that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset (asset group). Those estimates shall exclude interest charges that will be recognized as an expense when incurred.

360-10-35-30 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall incorporate the entity's own assumptions about its use of the asset (asset group) and shall consider all available evidence. The assumptions used in developing those estimates shall be reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others. However, if alternative courses of action to recover the carrying amount of a long-lived asset (asset group) are under consideration or if a range is estimated for the amount of possible future cash flows associated with the likely course of action, the likelihood of those possible outcomes shall be considered. A probability-weighted approach may be useful in considering the likelihood of those possible outcomes. See Example 2 (paragraph 360-10-55-23) for an illustration of this guidance.

360-10-35-31 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall be made for the remaining useful life of the asset (asset group) to the entity. The remaining useful life of an asset group shall be based on the remaining useful life of the primary asset of the group. For purposes of this Subtopic, the primary asset is the principal long-lived tangible asset being depreciated or intangible asset being amortized that is the most significant component asset from which the asset group derives its cash-flow-generating capacity. The primary asset of an asset group therefore cannot be land or an intangible asset not being amortized.

360-10-35-32 Factors that an entity generally shall consider in determining whether a long-lived asset is the primary asset of an asset group include the following:

a. Whether other assets of the group would have been acquired by the entity without the asset

b. The level of investment that would be required to replace the asset

c. The remaining useful life of the asset relative to other assets of the group. If the primary asset is not the asset of the group with the longest remaining useful life, estimates of future cash flows for the group shall assume the sale of the group at the end of the remaining useful life of the primary asset.

360-10-35-33 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) that is in use, including a long-lived asset (asset group) for which development is substantially complete, shall be based on the existing service potential of the asset (asset group) at the date it is tested. The service potential of a long-lived asset (asset group) encompasses its remaining useful life, cash-flow-generating capacity, and for tangible assets, physical output capacity. Those estimates shall include cash flows associated with future expenditures necessary to maintain the existing service potential of a long-lived asset (asset group), including those that replace the service potential of component parts of a long-lived asset (for example, the roof of a building) and component assets other than the primary asset of an asset group. Those estimates shall exclude cash flows associated with future capital expenditures that would increase the service potential of a long-lived asset (asset group).

360-10-35-34 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) that is under development shall be based on the expected service potential of the asset (group) when development is substantially complete. Those estimates shall include cash flows associated with all future expenditures necessary to develop a long-lived asset (asset group), including interest payments that will be capitalized as part of the cost of the asset (asset group). Subtopic 835-20 requires the capitalization period to end when the asset is substantially complete and ready for its intended use.

360-10-35-35 If a long-lived asset that is under development is part of an asset group that is in use, estimates of future cash flows used to test the recoverability of that group shall include the cash flows associated with future expenditures necessary to maintain the existing service potential of the group (see paragraph 360-10-35-33) as well as the cash flows associated with all future expenditures necessary to substantially complete the asset that is under development (see the preceding paragraph). See Example 3 (paragraph 360-10-55-33). See also paragraphs 360-10-55-7 through 55-18 for considerations of site restoration and environmental exit costs.

· > Fair Value

360-10-35-36 For long-lived assets (asset groups) that have uncertainties both in timing and amount, an expected present value technique will often be the appropriate technique with which to estimate fair value.

> Long-Lived Assets Classified as Held for Sale

360-10-35-37 This guidance addresses the accounting for expected disposal losses for long-lived assets and asset groups that are classified as held for sale but have not yet been sold. See paragraphs 360-10-45-9 through 45-11 for the initial criteria to be met for classification as held for sale.

· > Measurement of Expected Disposal Loss or Gain

360-10-35-38 Costs to sell are the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. Those costs include broker commissions, legal and title transfer fees, and closing costs that must be incurred before legal title can be transferred. Those costs exclude expected future losses associated with the operations of a long-lived asset (disposal group) while it is classified as held for sale. Expected future operating losses that marketplace participants would not similarly consider in their estimates of the fair value less cost to sell of a long-lived asset (disposal group) classified as held for sale shall not be indirectly recognized as part of an expected loss on the sale by reducing the carrying amount of the asset (disposal group) to an amount less than its current fair value less cost to sell. If the sale is expected to occur beyond one year as permitted in limited situations by paragraph 360-10-45-11, the cost to sell shall be discounted.

360-10-35-39 The carrying amounts of any assets that are not covered by this Subtopic, including goodwill, that are included in a disposal group classified as held for sale shall be adjusted in accordance with other applicable GAAP prior to measuring the fair value less cost to sell of the disposal group. Paragraphs 350-20-40-1 through 40-7 provide guidance for allocating goodwill to a lower-level asset group to be disposed of that is part of a reporting unit and that constitutes a business. Goodwill is not included in a lower-level asset group to be disposed of that is part of a reporting unit if it does not constitute a business.

360-10-35-40 A loss shall be recognized for any initial or subsequent write-down to fair value less cost to sell. A gain shall be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized (for a write-down to fair value less cost to sell). The loss or gain shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group.

360-10-35-41 See paragraphs 310-40-35-11 and 310-40-40-10 for guidance related to determination of cost basis for foreclosed assets under Subtopic 310-40 and the measurement of cumulative losses previously recognized under the preceding paragraph.

PENDING CONTENT

Transition Date: P December 16, 2022; N December 16, 2022 | **Transition Guidance:** 326-10-65-5
See paragraphs 310-20-35-12D and 310-20-40-12 for guidance related to determination of cost basis for foreclosed assets under Subtopic 310-20 and the measurement of cumulative losses previously recognized under paragraph 360-10-35-40.

360-10-35-42 See paragraphs 830-30-45-13 through 45-15 for guidance regarding the application of Topic 830 to an investment being evaluated for impairment that will be disposed of.

· > Accounting While Held for Sale

360-10-35-43 A long-lived asset (disposal group) classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. If the asset (disposal group) is newly acquired, the carrying amount of the asset (disposal group) shall be established based on its fair value less cost to sell at the acquisition date. A long-lived asset shall not be depreciated (amortized) while it is classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be accrued.

· > Changes to a Plan of Sale

360-10-35-44 If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset (disposal group) previously classified as held for sale, the asset (disposal group) shall be reclassified as held and used. A long-lived asset that is reclassified shall be measured individually at the lower of the following:

a. Its carrying amount before the asset (disposal group) was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the asset (disposal group) been continuously classified as held and used
b. Its fair value at the date of the subsequent decision not to sell.

360-10-35-45 If an entity removes an individual asset or liability from a disposal group previously classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the criteria in paragraph 360-10-45-9 are met. Otherwise, the remaining long-lived assets of the group shall be measured individually at the lower of their carrying amounts or fair values less cost to sell at that date.

> Long-Lived Assets to Be Disposed of Other than by Sale

360-10-35-46 This guidance addresses the accounting for impairment of long-lived assets and asset groups that are intended to be disposed of by abandonment.

· > Long-Lived Assets to Be Abandoned

360-10-35-47 For purposes of this Subtopic, a long-lived asset to be abandoned is disposed of when it ceases to be used. If an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates shall be revised in accordance with paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 to reflect the use of the asset over its shortened useful life (see paragraph 360-10-35-22).

360-10-35-48 Because the continued use of a long-lived asset demonstrates the presence of service potential, only in unusual situations would the fair value of a long-lived asset to be abandoned be zero while it is being used. When a long-lived asset ceases to be used, the carrying amount of the asset should equal its salvage value, if any. The salvage value of the asset shall not be reduced to an amount less than zero.

· > Long-Lived Asset Temporarily Idled

360-10-35-49 A long-lived asset that has been temporarily idled shall not be accounted for as if abandoned.

40 Derecognition

General Note:The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

Related Proposed

360-10-40-1 Paragraph superseded by Accounting Standards Update No. 2014-09.

> Sale of Leased Property

360-10-40-2 Paragraph 840-20-40-5 states that if a sale to a third party of property subject to an operating lease (or of property that is leased by or intended to be leased by the third-party purchaser to another party) is not to be recorded as a sale because the entity has not transferred control over the promised asset to the third party in accordance with paragraph 606-10-25-30, the transaction shall be accounted for as a borrowing.

360-10-40-3 Paragraph superseded by Accounting Standards Update No. 2014-09.

> Transfer or Sale of Property, Plant, and Equipment

360-10-40-3A An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless the entity sells or transfers the nonfinancial asset in a contract with a customer. The derecognition of a nonfinancial asset in a contract with a customer shall be accounted for in accordance with Topic 606 on revenue from contracts with customers.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset and an asset subject to a lease, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. For example, the derecognition of a nonfinancial asset in a contract with a customer shall be accounted for in accordance with Topic 606 on revenue from contracts with customers.

360-10-40-3B An entity shall account for the derecognition of a subsidiary or group of assets that is either a business or nonprofit activity in accordance with the derecognition guidance in Subtopic 810-10.

360-10-40-3C If an entity transfers a nonfinancial asset in accordance with paragraph 360-10-40-3A, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all the criteria in paragraph 606-10-25-1. Until all the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do all of the following:

a. Report the nonfinancial asset in its financial statements

b. Recognize depreciation expense as a period cost unless the assets have been classified as held for sale in accordance with paragraphs 360-10-45-9 through 45-10

c. Apply the impairment guidance in Section 360-10-35.

Impairment or Disposal of Long-Lived Assets

Related Proposed

> Long-Lived Assets to Be Exchanged or to Be Distributed to Owners in a Spinoff

360-10-40-4 For purposes of this Subtopic, a long-lived asset to be disposed of in an exchange measured based on the recorded amount of the nonmonetary asset relinquished or to be distributed to owners in a spinoff is disposed of when it is exchanged or distributed. If the asset (asset group) is tested for recoverability while it is classified as held and used, the estimates of future cash flows used in that test shall be based on the use of the asset for its remaining useful life, assuming that the disposal transaction will not occur. In such a case, an undiscounted cash flows recoverability test shall apply prior to the disposal date. In addition to any impairment losses required to be recognized while the asset is classified as held and used, an impairment loss, if any, shall be recognized when the asset is disposed of if the carrying amount of the asset (disposal group) exceeds its fair value. The provisions of this Section apply to nonmonetary exchanges that are not recorded at fair value under the provisions of Topic 845.

> Recognition of Gain or Loss from Sale

360-10-40-5 A gain or loss not previously recognized that results from the sale of a long-lived asset (disposal group) shall be recognized when the long-lived asset (disposal group) is derecognized in accordance with applicable Topics (for example, Topic 610 on other income, Topic 810 on consolidation, or Topic 860 on transfers and servicing).

> Long-Lived Assets to Be Abandoned

360-10-40-6 See paragraphs 360-10-35-47 through 35-48 for guidance related to the disposition of an asset upon its abandonment.

45 Other Presentation Matters

General Note:The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Related Proposed

> Planned Major Maintenance Activities

360-10-45-1 An entity shall apply the same method of accounting for planned major maintenance activities in annual and interim financial reporting periods.

Impairment or Disposal of Long-Lived Assets

Related Proposed

360-10-45-2 This Subsection presents guidance for the presentation of impairment or disposal of long-lived assets or asset groups that are classified as:

a. Held and used
b. Held for sale
c. To be disposed of other than by sale.

360-10-45-3 See paragraphs 205-20-45-1A through 45-11 for guidance on the presentation of operations of a discontinued operation.

> Long-Lived Assets Classified as Held and Used

· > Presentation of Impairment Loss for Long-Lived Assets to Be Held and Used

360-10-45-4 An impairment loss recognized for a long-lived asset (asset group) to be held and used shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amount of that loss.

· > Presentation of Disposal Gains or Losses in Continuing Operations

360-10-45-5 A gain or loss recognized (see Subtopic 610-20 on the sale or transfer of a nonfinancial asset) on the sale of a long-lived asset (disposal group) that is not a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.

· > Changes to a Plan of Sale

360-10-45-6 If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset (disposal group) previously classified as held for sale, the asset (disposal group) shall be reclassified as held and used.

360-10-45-7 Any required adjustment to the carrying amount of a long-lived asset that is reclassified as held and used shall be included in income from continuing operations in the period of the subsequent decision not to sell. That adjustment shall be reported in the same income statement caption used to report a loss, if any, recognized in accordance with paragraph 360-10-45-5. If a component of an entity is reclassified as held and used, the results of operations of the component previously reported in discontinued operations in accordance with paragraph 205-20-45-3 shall be reclassified and included in income from continuing operations for all periods presented.

360-10-45-8 Any long-lived assets that will not be sold shall be reclassified as held and used in accordance with paragraph 360-10-35-44.

> Long-Lived Assets Classified as Held for Sale

· > Initial Criteria for Classification as Held for Sale

360-10-45-9 A long-lived asset (disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met:

a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).

b. The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups). (See Examples 5 through 7 [paragraphs 360-10-55-37 through 55-41], which illustrate when that criterion would be met.)

c. An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.

d. The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year, except as permitted by paragraph 360-10-45-11. (See Example 8 [paragraph 360-10-55-43], which illustrates when that criterion would be met.) The term probable refers to a future sale that is likely to occur.

e. The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value. The price at which a long-lived asset (disposal group) is being marketed is indicative of whether the entity currently has the intent and ability to sell the asset (disposal group). A market price that is reasonable in relation to fair value indicates that the asset (disposal group) is available for immediate sale, whereas a market price in excess of fair value indicates that the asset (disposal group) is not available for immediate sale.

f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

360-10-45-10 If at any time the criteria in this Subsection are no longer met (except as permitted by the following paragraph), a long-lived asset (disposal group) classified as held for sale shall be reclassified as held and used in accordance with paragraph 360-10-35-44.

360-10-45-11 Events or circumstances beyond an entity's control may extend the period required to complete the sale of a long-lived asset (disposal group) beyond one year. An exception to the one-year requirement in paragraph 360-10-45-9(d) shall apply in the following situations in which such events or circumstances arise:

a. If at the date an entity commits to a plan to sell a long-lived asset (disposal group) the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (group) that will extend the period

required to complete the sale and both of the following conditions are met:

1. Actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained.

2. A firm purchase commitment is probable within one year. (See Example 9 [paragraph 360-10-55-44], which illustrates that situation.)

b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a long-lived asset (disposal group) previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:

1. Actions necessary to respond to the conditions have been or will be timely initiated.

2. A favorable resolution of the delaying factors is expected. (See Example 10 [paragraph 360-10-55-46], which illustrates that situation.)

c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, a long-lived asset (disposal group) previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:

1. During the initial one-year period the entity initiated actions necessary to respond to the change in circumstances.

2. The asset (group) is being actively marketed at a price that is reasonable given the change in circumstances.

3. The criteria in paragraph 360-10-45-9 are met. (See Example 11 [paragraph 360-10-55-48], which illustrates that situation.)

· > Newly Acquired Asset Classified as Held for Sale

360-10-45-12 A long-lived asset (disposal group) that is newly acquired and that will be sold rather than held and used shall be classified as held for sale at the acquisition date only if the one-year requirement in paragraph 360-10-45-9(d) is met (except as permitted by the preceding paragraph) and any other criteria in paragraph 360-10-45-9 that are not met at that date are probable of being met within a short period following the acquisition (usually within three months).

· > Change of Classification After Balance Sheet Date but Before Issuance of Financial Statements

360-10-45-13 If the criteria in paragraph 360-10-45-9 are met after the balance sheet date but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), a long-lived asset shall continue to be classified as held and used in those financial statements when issued or when available to be issued. In addition, information required by paragraph 205-20-50-1(a) shall be disclosed in the notes to financial statements. If the asset (asset group) is tested for recoverability (on a held-and-used basis) as of the balance sheet date, the estimates of future cash flows used in that test shall consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of the future sale of the asset. That assessment made as of the balance sheet date shall not be revised for a decision to sell the asset after the balance sheet date. Because it is difficult to separate the benefit of hindsight when assessing conditions that existed at a prior date, it is important that judgments about those conditions, the need to test an asset for recoverability, and the application of a recoverability test be made and documented together with supporting evidence on a timely basis. An impairment loss, if any, to be recognized shall be measured as the amount by which the carrying amount of the asset (asset group) exceeds its fair value at the balance sheet date.

· > Presentation of Long-Lived Assets or Disposal Group Classified as Held for Sale

360-10-45-14 A long-lived asset classified as held for sale (but not qualifying for presentation as a discontinued operation in the statement of financial position in accordance with paragraph 205-20-45-10) shall be presented separately in the statement of financial position of the current period. The assets and liabilities of a disposal group classified as held for sale shall be presented separately in the asset and liability sections, respectively, of the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately presented on the face of the statement of financial position or disclosed in the notes to financial statements (see paragraph 360-10-50-3(e)).

> Long-Lived Assets to Be Disposed of Other Than by Sale

· > Presentation of Long-Lived Assets to Be Disposed of Other Than by Sale

360-10-45-15 A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until it is disposed of. The guidance on long-lived assets to be held and used in Sections 360-10-35 , 360-10-45 , and 360-10-50 shall apply while the asset is classified as held and used. If a long-lived asset is to be abandoned or distributed to owners in a spinoff together with other assets (and liabilities) as a group and that disposal group meets the conditions in paragraphs 205-20-45-1A through 45-1C to be reported in discontinued operations, paragraphs 205-20-45-3 through 45-5 shall apply to the disposal group at the date it is disposed of.

50 Disclosure

General Note:The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Related Proposed

360-10-50-1 Because of the significant effects on financial position and results of operations of the depreciation method or methods used, all of the following disclosures shall be made in the financial statements or in notes thereto:

a. Depreciation expense for the period

b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date

c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date

d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

Impairment or Disposal of Long-Lived Assets

Related Proposed

> Impairment of Long-Lived Assets Classified as Held and Used

360-10-50-2 All of the following information shall be disclosed in the notes to financial statements that include the period in which an impairment loss is recognized:

a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment

b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement or the statement of activities that includes that loss

c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)

d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under Topic 280 .

> Long-Lived Assets Classified as Held for Sale or Disposed Of

360-10-50-3 For any period in which a long-lived asset (disposal group) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:

a. A description of the facts and circumstances leading to the disposal or the expected disposal.

b. The expected manner and timing of that disposal.

c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.

d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the statement of activities for a not-for-profit entity) that includes that gain or loss.

e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.

f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

360-10-50-3A In addition to the disclosures in paragraph 360-10-50-3, if a long-lived asset (disposal group) includes an individually significant component of an entity that either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9) and does not qualify for presentation and disclosure as a discontinued operation (see Subtopic 205-20 on discontinued operations), a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market shall disclose the information in (a). All other entities shall disclose the information in (b).

a. For a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, both of the following:

1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity) calculated in accordance with paragraphs 205-20-45-6 through 45-9

2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

b. For all other entities, both of the following:

1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale calculated in accordance with paragraphs 205-20-45-6 through 45-9

2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.

> Foreclosed Properties Held for Sale

360-10-50-4 See paragraph 310-10-50-11 for guidance related to foreclosed and repossessed assets.

55 Implementation Guidance and Illustrations

ⓘ **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users

must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

Impairment or Disposal of Long-Lived Assets

> Implementation Guidance

· > Treatment of Certain Site Restoration and Environmental Exit Costs when Testing a Long-Lived Asset for Impairment

360-10-55-1 The following guidance demonstrates the consideration of restoration and environmental exit costs when testing a long-lived asset for impairment. Paragraphs 360-10-35-18 through 35-19 also provide guidance for such testing for assets subject to asset retirement obligations.

360-10-55-2 For certain assets covered by this Subtopic, costs for future site restoration or closure (environmental exit costs) may be incurred if the asset is sold, is abandoned, or ceases operations. Environmental exit costs within the scope of this Subsection include:

a. Asset retirement costs recognized pursuant to Subtopic 410-20

b. Asset retirement costs that have not been recognized because the obligation has not been incurred

c. Certain environmental remediation costs that have not yet been recognized as a liability pursuant to Subtopic 410-30 .

360-10-55-3 Pursuant to Subtopic 410-20 , asset retirement costs may be incurred over more than one reporting period. For example, the liability for performing certain capping, closure, and postclosure activities in connection with operating a landfill is incurred as the landfill receives waste.

360-10-55-4 The related cash flows, if any, might not occur until the end of the asset's life if the asset ceases operations, or they might be deferred indefinitely as long as the asset is not sold or abandoned.

360-10-55-5 The issue is whether the cash flows associated with environmental exit costs that may be incurred if a long-lived asset is sold, is abandoned, or ceases operations should be included in the undiscounted expected future cash flows used to test a long-lived asset for recoverability under this Subtopic.

360-10-55-6 For environmental exit costs that have not been recognized as a liability for accounting purposes, whether those environmental exit costs shall be included in the undiscounted expected future cash flows used to test a long-lived asset for recoverability under this Subtopic depends on management's intent with respect to the asset. Pursuant to this Subtopic, if management's intent contemplates alternative courses of action to recover the carrying amount of the asset or if a range is estimated for the amount of possible future cash flows, the likelihood of those possible outcomes shall be considered. Examples of management's intent and the corresponding treatment of the environmental exit costs in this Subtopic's recoverability test are described below. (Environmental remediation costs discussed in certain of these cases refer to environmental remediation costs that have not yet been recognized as a liability pursuant to Subtopic 410-30 .) This paragraph illustrates the guidance in paragraphs 360-10-35-29 through 35-35 on estimating future cash flows used to test a long-lived asset for recoverability.

· > Environmental Exit Costs that Shall Be Excluded from this Subtopic's Recoverability Test

360-10-55-7 The following guidance demonstrates the consideration of restoration and environmental exit costs when testing a long-lived asset for impairment. In all of the following situations, environmental exit costs would be excluded from this Subtopic's recoverability test.

· · > Management Intends to Operate Asset, Future Cash Flows Exceed Carrying Amount, and No Expectation of Cash Outflow in Disposition

360-10-55-8 Management intends to operate the asset for at least the asset's remaining depreciable life, the sum of the undiscounted future cash flows expected from the asset's use during that period exceeds the asset's carrying amount including any associated goodwill, and management has no reason to believe that the asset's eventual disposition will result in a net cash outflow.

· · > Management Expects to Operate Asset, Asset Generating Positive Cash Flows, Profitability Expected to Continue, and No Constraints on Economic Life

360-10-55-9 Management expects to operate the asset indefinitely and has the ability to do so, the asset is generating positive cash flows, management's best information indicates that the asset will continue to be profitable in the future, and there are no known constraints to the asset's economic life. This Subtopic's recoverability test shall include the future cash outflows for repairs, maintenance, and capital expenditures necessary to obtain the future cash inflows expected to be generated by the asset based on its existing service potential.

· · > Asset Has Finite Life but Remediation Costs Only Incurred if Asset Sold or Abandoned

360-10-55-10 The asset has a finite economic life, but environmental remediation costs will only be incurred if the asset is sold or abandoned. At the end of the asset's life, management intends either to close the asset permanently because the costs of remediating the asset exceed the proceeds that likely would be received if the asset were sold or, alternatively, to idle the asset by reducing production to a minimal or nominal amount. (Although the environmental remediation costs are excluded from this Subtopic's recoverability test, the recoverability test shall incorporate the entity's own assumptions about its use of the asset. That is, the recoverability test shall consider the likelihood of the alternative courses of action [either closing or idling the asset] and the resulting cash flows associated with those alternative courses.)

· · > Management Expects to Sell Asset and Remediation Costs Not Required

360-10-55-11 Management expects to sell the asset in the future, and the asset's sale will not require the environmental remediation costs to be incurred. (Although the environmental remediation costs are excluded from this Subtopic's recoverability test, the fair value of the asset is likely to be affected by the existence of those costs. The diminished fair value shall be considered in estimating the cash flows expected to arise from the eventual sale of the asset.)

· > Environmental Exit Costs that Shall Be Included in this Subtopic's Recoverability Test

360-10-55-12 The following guidance demonstrates the consideration of restoration and environmental exit costs when testing a long-lived asset for impairment. In all of the following situations, environmental exit costs would be included in this Subtopic's recoverability test.

· · > Management Expects Remediation Costs to Be Incurred but Uncertainties Exist in Application of Laws

360-10-55-13 Management expects to take a future action related to the asset that may cause the environmental remediation costs to be incurred. However, uncertainties or inconsistencies exist in how the related laws or regulatory requirements are applied. Management estimates, based on the weight of the available evidence, a 60 percent chance that the remediation costs will not be incurred and a 40 percent chance that those costs will be incurred. Pursuant to this Subtopic, other situations may exist in which cash flows are estimated using a single set or best estimate of cash flows.

· · > Useful Life Limited and then Asset Disposition Required

360-10-55-14 The useful life of the asset is limited as a result of any of the following:

a. Actual or expected technological advances

b. Contractual provisions

c. Regulatory restrictions.

Also, when the asset's service potential has ended, management will be required to dispose of the asset under paragraph 360-10-55-16 or 360-10-55-17.

· · > Continuing Losses May Require Asset Disposition

360-10-55-15 The asset has a current period cash flow loss from operations combined with a projection or forecast that anticipates continuing losses. Management expects the asset to achieve profitability in the future but uncertainty exists about management's ability to fund the future cash outflows up to the time that net cash inflows are expected from the asset's use. In the event of a forced liquidation, management would likely dispose of the asset under the following paragraph or paragraph 360-10-55-17.

· · > Intent to Abandon or Close an Asset

360-10-55-16 Management intends to abandon or close the asset in the future, and the event of abandonment or closure will cause the environmental remediation costs to be incurred.

· · > Future Sale Will Require Remediation Costs to Be Incurred

360-10-55-17 Management intends to sell the asset in the future, and the applicable laws, regulations, or interpretations thereof require that appropriate environmental remediation (not within the scope of Subtopic 410-20) occur in connection with the sale.

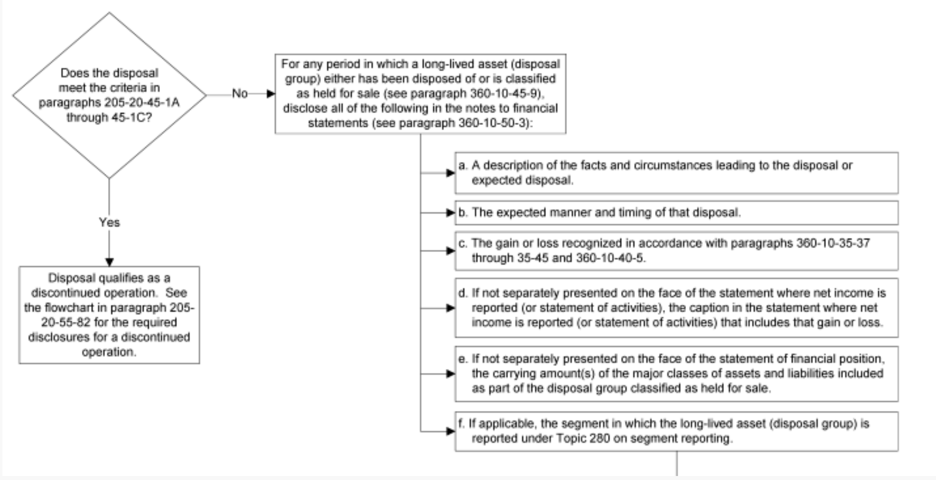
· · > Management Expects to Operate Asset and Retirement Costs to Be Incurred over Its Life

360-10-55-18 Management expects to operate the asset for the remainder of its useful life. Related asset retirement costs are incurred over the life of the asset (for example, the operation of a landfill). Estimated cash flows associated with the asset retirement costs yet to be incurred and recognized shall be included in this Subtopic's recoverability test.

· > Disposal Disclosure Requirements

360-10-55-18A The following flowchart provides an overview of the disclosures required for disposals of long-lived assets and individually significant components of an entity that do not qualify for presentation and disclosure as a discontinued operation (see Subtopic 205-20 on discontinued operations).

Required Disclosures for the Disposal of an Asset and Component of an Entity



> Illustrations

360-10-55-19 The following Examples illustrate application of some of the provisions of this Subtopic. The Examples do not address all possible situations or applications of this Subtopic.

· > Example 1: Allocation of Impairment Loss

360-10-55-20 This Example illustrates the allocation of an impairment loss to the long-lived assets of an asset group (see paragraph 360-10-35-28).

360-10-55-21 An entity owns a manufacturing facility that together with other assets is tested for recoverability as a group. In addition to long-lived assets (Assets A-D), the asset group includes inventory measured using first-in, first-out (FIFO), which is reported at the lower of cost and net realizable value in accordance with Topic 330, and other current assets and liabilities that are not covered by this Subtopic. The $2.75 million aggregate carrying amount of the asset group is not recoverable and exceeds its fair value by $600,000. In accordance with paragraph 360-10-35-28, the impairment loss of $600,000 would be allocated as shown below to the long-lived assets of the group.

Asset Group	Carrying Amount (in $ 000s)	Pro Rata Allocation Factor	Allocation of Impairment (Loss) (in $ 000s)	Adjusted Carrying Amount (in $ 000s)
Current assets	$ 400	-	$ -	$ 400
Liabilities	(150)	-	-	(150)
Long-lived assets:				
Asset A	590	24%	(144)	446
Asset B	780	31	(186)	594
Asset C	950	38	(228)	722
Asset D	180	7	(42)	138
Subtotal—long-lived assets	2,500	100	(600)	1,900
Total	$ 2,750	100%	$ (600)	$ 2,150

360-10-55-22 If the fair value of an individual long-lived asset of an asset group is determinable without undue cost and effort and exceeds the adjusted carrying amount of that asset after an impairment loss is allocated initially, the excess impairment loss initially allocated to that asset would be reallocated to the other long-lived assets of the group. For example, if the fair value of Asset C is $822,000, the excess impairment loss of $100,000 initially allocated to that asset (based on its adjusted carrying amount of $722,000) would be reallocated as shown below to the other long-lived assets of the group on a pro rata basis using the relative adjusted carrying amounts of those assets.

Long-Lived Assets of Asset Group	Adjusted Carrying Amount (in $ 000s)	Pro Rata Reallocation Factor	Reallocation of Excess Impairment (Loss) (in $ 000s)	Adjusted Carrying Amount after Reallocation (in $ 000s)
Asset A	$ 446	38%	$ (38)	$ 408
Asset B	594	50	(50)	544
Asset D	138	12	(12)	126

· > Example 2: Probability-Weighted Cash Flows

360-10-55-23 This Example illustrates the use of a probability-weighted approach for developing estimates of future cash flows used to test a long-lived asset for recoverability when alternative courses of action are under consideration (see paragraph 360-10-35-30). This Example has the following Cases:

a. Probability-weighted cash flows (Case A)

b. Expected cash flows technique (Case B).

360-10-55-24 Cases A and B share all of the following assumptions.

360-10-55-25 As of December 31, 20X2, a manufacturing facility with a carrying amount of $48 million is tested for recoverability. At that date, 2 courses of action to recover the carrying amount of the facility are under consideration—sell in 2 years or sell in 10 years (at the end of its remaining useful life).

360-10-55-26 The possible cash flows associated with each of those courses of action are $41 million and $48.7 million, respectively. They are developed based on entity-specific assumptions about future sales (volume and price) and costs in varying scenarios that consider the likelihood that existing customer relationships will continue, changes in economic (market) conditions, and other relevant factors.

· · > Case A: Probability-Weighted Cash Flows

360-10-55-27 The following table shows the possible cash flows associated with each of the courses of action—sell in 2 years or sell in 10 years.

Course of Action	Cash Flows (Use) (in $ millions)	Cash Flows (Disposition) (in $ millions)	Cash Flows (Total) (in $ millions)	Probability Assessment	Possible Cash Flows (Probability-Weighted) (in $ millions)
Sell in 2 years	$ 8	$ 30	$ 38	20%	$ 7.6
	11	30	41	50	20.5
	13	30	43	30	12.9
					$ 41.0
Sell in 10 years	36	1	37	20%	$ 7.4
	48	1	49	50	24.5
	55	1	56	30	16.8
					$ 48.7

360-10-55-28 As further indicated in the following table, there is a 60 percent probability that the facility will be sold in 2 years and a 40 percent probability that the facility will be sold in 10 years.

360-10-55-29 The alternatives of whether to sell or use an asset are not necessarily independent of each other. In many situations, after estimating the possible future cash flows relating to those potential courses of action, an entity might select the course of action that results in a significantly higher estimate of possible future cash flows. In that situation, the entity generally would use the estimates of possible future cash flows relating only to that course of action in computing future cash flows. As shown, the expected cash flows are $44.1 million (undiscounted). Therefore, the carrying amount of the facility of $48 million would not be recoverable.

Course of Action	Possible Cash Flows (Probability-Weighted) (in $ millions)	Probability Assessment (Course of Action)	Expected Cash Flows (Undiscounted) (in $ millions)
Sell in 2 years	$ 41.0	60%	$ 24.6
Sell in 10 years	48.7	40	19.5
			$ 44.1

· · > Case B: Expected Cash Flows Technique

360-10-55-30 This Case illustrates the application of an expected present value technique to estimate the fair value of a long-lived asset in an impairment situation.

360-10-55-31 The following table shows by year the computation of the expected cash flows used in the measurement. They reflect the possible cash flows (probability-weighted) used to test the manufacturing facility for recoverability in Case A, adjusted for relevant marketplace assumptions, which increases the possible cash flows in total by approximately 15 percent.

Year	Possible Cash Flows (Market) (in $ millions)	Probability Assessment	Expected Cash Flows (Undiscounted) (in $ millions)
1	$ 4.6	20%	$ 0.9
	6.3	50	3.2
	7.5	30	2.3
			$ 6.4
2	$ 4.6	20%	$ 0.9
	6.3	50	3.2
	7.5	30	2.3
			$ 6.4
3	$ 4.3	20%	$ 0.9
	5.8	50	2.9
	6.7	30	2.0
			$ 5.8
4	$ 4.3	20%	$ 0.9
	5.8	50	2.9
	6.7	30	2.0
			$ 5.8
5	$ 4.0	20%	$ 0.8
	5.4	50	2.7
	6.4	30	1.9
			$ 5.4
6	$ 4.0	20%	$ 0.8
	5.4	50	2.7
	6.4	30	1.9
			$ 5.4
7	$ 3.9	20%	$ 0.8
	5.1	50	2.6
	5.6	30	1.7
			$ 5.1
8	$ 3.9	20%	$ 0.8
	5.1	50	2.6
	5.6	30	1.7
			$ 5.1
9	$ 3.9	20%	$ 0.8
	5.0	50	2.5
	5.5	30	1.7
			$ 5.0
10	$ 4.9	20%	$ 1.0
	6.0	50	3.0
	6.5	30	2.0
			$ 6.0

360-10-55-32 The following table shows the computation of the expected present value; that is, the sum of the present values of the expected cash flows by year, each discounted at a risk-free interest rate determined from the yield curve for U.S. Treasury instruments. In this Case, a market risk premium is included in the expected cash flows; that is, the cash flows are certainty equivalent cash flows. As shown, the expected present value is $42.3 million, which is less than the carrying amount of $48 million. In accordance with paragraph 360-10-35-17 the entity would recognize an impairment loss of $5.7 million.

Year	Expected Cash Flows (Undiscounted) (in $ millions)	Risk-Free Rate of Interest	Expected Present Value (in $ millions)
1	$ 6.4	5.0%	$ 6.1
2	6.4	5.1	5.8
3	5.8	5.2	5.0
4	5.8	5.4	4.7
5	5.4	5.6	4.1
6	5.4	5.8	3.9

· > Example 3: Estimates of Future Cash Flows Used to Test an Asset Group for Recoverability

360-10-55-33 A long-lived asset that is under development may be part of an asset group that is in use. In that situation, estimates of future cash flows used to test the recoverability of that group shall include the cash flows associated with future expenditures necessary to maintain the existing service potential of the group as well as the cash flows associated with future expenditures necessary to substantially complete the asset that is under development (see paragraph 360-10-35-35).

360-10-55-34 An entity engaged in mining and selling phosphate estimates future cash flows from its commercially minable phosphate deposits in order to test the recoverability of the asset group that includes the mine and related long-lived assets (plant and equipment). Deposits from the mined rock must be processed in order to extract the phosphate. As the active mining area expands along the geological structure of the mine, a new processing plant is constructed near the production area. Depending on the size of the mine, extracting the minable deposits may require building numerous processing plants over the life of the mine. In testing the recoverability of the mine and related long-lived assets, the estimates of future cash flows from its commercially minable phosphate deposits would include cash flows associated with future expenditures necessary to build all of the required processing plants.

· > Example 4: Grouping Assets for Impairment Review

360-10-55-35 Varying facts and circumstances will inevitably justify different groupings of assets for impairment review. While grouping at the lowest level for which there are identifiable cash flows for recognition and measurement of an impairment loss is understood, determining that lowest level requires considerable judgment.

360-10-55-36 This Example illustrates the need for judgment in grouping assets for impairment, as discussed in paragraphs 360-10-35-23 through 35-25. In this Example, an entity operates a bus entity that provides service under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to serving each route and the cash flows from each route are discrete. One of the routes operates at a significant deficit that results in the inability to recover the carrying amounts of the dedicated assets. The five bus routes would be an appropriate level at which to group assets to test for and measure impairment because the entity does not have the option to curtail any one bus route.

· > Example 5: Plan to Sell Headquarters Building

360-10-55-37 This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with paragraph 360-10-45-9(b).

360-10-55-38 An entity commits to a plan to sell its headquarters building and has initiated actions to locate a buyer. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would or would not be met:

a. The entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in paragraph 360-10-45-9(b) would be met at the plan commitment date.

b. The entity will continue to use the building until construction of a new headquarters building is completed. The entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the entity (seller) demonstrates that the building is not available for immediate sale. The criterion in

paragraph 360-10-45-9(b) would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

· > Example 6: Plan to Sell Manufacturing Facility with Backlog of Orders

360-10-55-39 This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with paragraph 360-10-45-9(b).

360-10-55-40 An entity commits to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would or would not be met:

a. The entity intends to sell the manufacturing facility with its operations. Any uncompleted customer orders at the sale date would transfer to the buyer. The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 360-10-45-9(b) would be met at the plan commitment date.

b. The entity intends to sell the manufacturing facility, but without its operations. The entity does not intend to transfer the facility to a buyer until after it ceases all operations of the facility and eliminates the backlog of uncompleted customer orders. The delay in the timing of the transfer of the facility imposed by the entity (seller) demonstrates that the facility is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until the operations of the facility cease, even if a firm purchase commitment for the future transfer of the facility is obtained earlier.

· > Example 7: Intent to Sell Acquired Real Estate Foreclosure

360-10-55-41 This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with paragraph 360-10-45-9(b).

360-10-55-42 An entity acquires through foreclosure a real estate property that it intends to sell. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would not be met:

a. The entity does not intend to transfer the property to a buyer until after it completes renovations to increase its sales value. The delay in the timing of the transfer of the property imposed by the entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until the renovations are completed.

b. After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation. The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not continue to be met. The property would be reclassified as held and used in accordance with paragraph 360-10-45-7 .

· > Example 8: Proposed Disposition Not Expected to Qualify as Completed Sale

360-10-55-43 This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with the criterion in paragraph 360-10-45-9(d) . The following illustrates situations in which that criterion would not be met:

a. An entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently come off lease and the ultimate form of a future transaction (sale or lease) has not yet been determined.

b. An entity commits to a plan to sell a property that is in use, and the transfer of the property will be accounted for as a sale-leaseback through which the seller-lessee will retain more than a minor portion of the use of the property. The property would continue to be classified as held and used following the appropriate guidance in Sections 360-10-35 , 360-10-45 , and 360-10-50 . If at the date of the sale-leaseback the fair value of the property is less than its

undepreciated cost, a loss would be recognized immediately up to the amount of the difference between undepreciated cost and fair value in accordance with paragraphs 840-40-25-3(c) and 840-40-30-3.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with the criterion in paragraph 360-10-45-9(d). The following illustrates situations in which that criterion would not be met:

a. An entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently come off lease and the ultimate form of a future transaction (sale or lease) has not yet been determined.

b. An entity commits to a plan to sell an asset that is in use and lease back that asset; however, the transfer of the asset will not be accounted for as a sale and leaseback transaction because the buyer-lessor does not obtain control of the asset based on the guidance in paragraphs 842-40-25-1 through 25-3. The asset would continue to be classified as held and used following the appropriate guidance in Sections 360-10-35, 360-10-45, and 360-10-50.

· > Example 9: Regulatory Approval of Sale Required

360-10-55-44 This Example illustrates an exception to the one-year requirement in paragraph 360-10-45-9(d) to complete the sale of a long-lived asset (disposal group) (see paragraph 360-10-45-11). The following illustrates situations in which the conditions for an exception to the criterion in paragraph 360-10-45-9(d) would be met.

360-10-55-45 An entity in the utility industry commits to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale will require regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is probable within one year. In that situation, the conditions in paragraph 360-10-45-11(a) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met.

· > Example 10: Environmental Damage Identified During Buyer's Inspection

360-10-55-46 This Example illustrates an exception to the one-year requirement in paragraph 360-10-45-9(d) to complete the sale of a long-lived asset (disposal group) (see paragraph 360-10-45-11). The following illustrates a situation in which the conditions for an exception to the criterion in paragraph 360-10-45-9(d) would be met.

360-10-55-47 An entity commits to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. The entity is required by the buyer to remediate the damage, which will extend the period required to complete the sale beyond one year. However, the entity has initiated actions to remediate the damage, and satisfactory remediation of the damage is probable. In that situation, the conditions in paragraph 360-10-45-11(b) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met.

· > Example 11: Deterioration of Market Conditions

360-10-55-48 This Example illustrates an exception to the one-year requirement in paragraph 360-10-45-9(d) to complete the sale of a long-lived asset (disposal group) (see paragraph 360-10-45-11).

360-10-55-49 An entity commits to a plan to sell a long-lived asset and classifies the asset as held for sale at that date. The following illustrates situations in which the conditions for an exception to the criterion in paragraph 360-10-45-9(d) would or would not be met:

a. During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraph 360-10-45-9 are met. In that situation, the conditions in paragraph 360-10-45-11(c) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.

b. During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The entity believes that the market conditions will improve and has not further reduced the price of the asset. The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by the criterion in paragraph 360-10-45-9(b). In addition, the criterion in paragraph 360-10-45-9(e) requires that an asset be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph 360-10-45-11(c) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would not be met. The asset would be reclassified as held and used in accordance with paragraph 360-10-35-44.

· > Example 12: Specialized Equipment—Potential Impairment

360-10-55-50 Offshore Industries is a manufacturer of offshore drilling rigs and platforms. The entity's manufacturing process requires significant specialized equipment, which it currently owns. As a result of a decline in the price of oil, the demand for its products and services has fallen dramatically in the past two years, resulting in a significant underutilization of its manufacturing capacity.

360-10-55-51 The entity depreciates its investments in specialized equipment based on its original estimate of the remaining useful lives of the equipment using the units-of-production method, since it believes that the exhaustion of usefulness of these specialized assets relates more to their use than to the passage of time. The entity reevaluates these estimates in light of current conditions in accordance with generally accepted accounting principles (GAAP). The entity also monitors the policies of its major competitors and is aware that several have reported large write-downs of similar assets. Nevertheless, while the entity believes that it is at least reasonably possible that its estimate that it will recover the carrying amount of those assets from future operations will change during the next year, it believes it is more likely that conditions in the industry will improve and that no write-down for impairment will be necessary.

360-10-55-52 The entity would make the following disclosure:

> Offshore's policy is to depreciate specialized manufacturing equipment (with a net book value of $25 million at December 31, 19X7) over its remaining useful life using the units-of-production method and to evaluate the remaining life and recoverability of such equipment in light of current conditions. [Given the excess capacity in the industry,] it is reasonably possible that the entity's estimate that it will recover the carrying amount of this equipment from future operations will change in the near term.

360-10-55-53 Regarding the preceding illustrative disclosure, if the information in the first sentence is already disclosed elsewhere in the notes, it need not be repeated. Also, the bracketed material in the second sentence represents an example of voluntary disclosure that is encouraged by paragraph 275-10-50-9.

360-10-55-54 In this Example, the entity acknowledges that the carrying amount of the specialized assets is subject to significant uncertainty based on current conditions. The uncertainty relates to the measurement of the specialized assets at the date of the financial statements, and the entity's disclosure makes clear that it is at least reasonably possible that the carrying amount will change in the near term.

60 Relationships

General Note:The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

> Real Estate—Real Estate Investment Trusts

360-10-60-1 For a discussion of the appropriate accounting affecting property, plant, and equipment by a real estate investment trust for operating support from its adviser, see paragraph 974-720-25-2.

S00 Status

General Note:The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

360-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
360-10-S99-2	Amended	Accounting Standards Update No. 2012-03	08/27/2012

S45 Other Presentation Matters

General Note:The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

> Presentation of Disposal Gains or Losses in Continuing Operations

360-10-S45-1 See paragraph 360-10-S99-1 , SAB Topic 5.B, for SEC Staff views on the presentation of gains or losses from the disposition of equipment.

> Presentation of Accumulated Depreciation

360-10-S45-2 See paragraph 210-10-S99-1 , Regulation S-X Rule 5-02.14, for the presentation requirements of accumulated depreciation within the balance sheet or notes thereto.

Impairment or Disposal of Long-lived Assets

> Presentation of Disposal Gains or Losses

360-10-S45-3 See paragraph 360-10-S99-1 , SAB Topic 5.B, for SEC Staff views on the presentation of gains or losses from the disposal of equipment.

S50 Disclosure

General Note:The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

> Required Disclosure Regarding Basis for Determining Amounts of Property, Plant, and Equipment

360-10-S50-1 See paragraph 210-10-S99-1 , Regulation S-X Rule 5-02.13(a), for required disclosure regarding the basis for determining amounts of property, plant, and equipment.

S55 Implementation Guidance and Illustrations

General Note:The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

Impairment or Disposal of Long-lived Assets

> Long-Lived Assets to Be Abandoned

360-10-S55-1 See paragraph 360-10-S99-2 , SAB Topic 5.CC, for SEC Staff views on the accounting for long-lived assets that are to be abandoned in the near future.

> Estimates of Future Cash Flows Used to Test a Long-Lived Asset for Recoverability

360-10-S55-2 See paragraph 360-10-S99-2 , SAB Topic 5.CC, for SEC Staff views on estimating future cash flows for the purposes of performing an impairment test.

S99 SEC Materials

General Note:As more fully described in *About the Codification*, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

Impairment or Disposal of Long-lived Assets

> SEC Staff Guidance

· > Staff Accounting Bulletins

· · > SAB Topic 5.B, Gain or Loss from Disposition of Equipment

360-10-S99-1 The following is the text of SAB Topic 5.B, Gain or Loss from Disposition of Equipment.

Facts: Company A has adopted the policy of treating gains and losses from disposition of revenue producing equipment as adjustments to the current year's provision for depreciation. Company B reflects such gains and losses as a separate item in the statement of income.

Question: Does the staff have any views as to which method is preferable?

Interpretive Response: Gains and losses resulting from the disposition of revenue producing equipment should not be treated as adjustments to the provision for depreciation in the year of disposition, but should be shown as a separate item in the statement of income.

If such equipment is depreciated on the basis of group of composite accounts for fleets of like vehicles, gains (or losses) may be charged (or credited) to accumulated depreciation with the result that depreciation is adjusted over a period of years on an average basis. It should be noted that the latter treatment would not be appropriate for (1) an enterprise (such as an airline) which replaces its fleet on an episodic rather than a continuing basis or (2) an enterprise (such as a car leasing company) where equipment is sold after limited use so that the equipment on hand is both fairly new and carried at amounts closely related to current acquisition cost.

· · > SAB Topic 5.CC, Impairments

360-10-S99-2 The following is the text of SAB Topic 5.CC, Impairments.

Standards for recognizing and measuring impairment of the carrying amount of long-lived assets including certain identifiable intangibles to be held and used in operations are found in FASB ASC Topic 360 , Property, Plant, and Equipment. Standards for recognizing and measuring impairment of the carrying amount of goodwill and identifiable

intangible assets that are not currently being amortized are found in FASB ASC Topic 350, Intangibles—Goodwill and Other.

Facts: Company X has mainframe computers that are to be abandoned in six to nine months as replacement computers are put in place. The mainframe computers were placed in service in January 20X0 and were being depreciated on a straight-line basis over seven years. No salvage value had been projected at the end of seven years and the original cost of the computers was $8,400. The board of directors, with the appropriate authority, approved the abandonment of the computers in March 20X3 when the computers had a remaining carrying value of $4,600. No proceeds are expected upon abandonment. Abandonment cannot occur prior to the receipt and installation of replacement computers, which is expected prior to the end of 20X3. Management had begun reevaluating its mainframe computer capabilities in January 20X2 and had included in its 20X3 capital expenditures budget an estimated amount for new mainframe computers. The 20X3 capital expenditures budget had been prepared by management in August 20X2, had been discussed with the company's board of directors in September 20X2 and was formally approved by the board of directors in March 20X3. Management had also begun soliciting bids for new mainframe computers beginning in the fall of 20X2. The mainframe computers, when grouped with assets at the lowest level of identifiable cash flows, were not impaired on a "held and used" basis throughout this time period. Management had not adjusted the original estimated useful life of the computers (seven years) since 20X0.

Question 1: Company X proposes to recognize an impairment charge under FASB ASC Topic 360 for the carrying value of the mainframe computers of $4,600 in March 20X3. Does Company X meet the requirements in FASB ASC Topic 360 to classify the mainframe computer assets as "to be abandoned?"

Interpretive Response: No. FASB ASC paragraph 360-10-35-47 provides that "a long-lived asset to be abandoned is disposed of when it ceases to be used. If an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates shall be revised in accordance with FASB ASC Topic 250, Accounting Changes and Error Corrections, to reflect the use of the asset over its shortened useful life."

Question 2: Would the staff accept an adjustment to write down the carrying value of the computers to reflect a "normalized depreciation" rate for the period from March 20X3 through actual abandonment (e. g., December 20X3)? Normalized depreciation would represent the amount of depreciation otherwise expected to be recognized during that period without adjustment of the asset's useful life, or $1,000 ($100/month for ten months) in the example fact pattern.

Interpretive Response: No. The mainframe computers would be viewed as "held and used" at March 20X3 under the fact pattern described. There is no basis under FASB ASC Topic 360 to write down an asset to an amount that would subsequently result in a "normalized depreciation" charge through the disposal date, whether disposal is to be by sale, abandonment, or other means. FASB ASC paragraph 360-10-35-43 requires the asset to be valued at the lower of carrying amount or fair value less cost to sell in order to be classified as "held for sale." For assets that are classified as "held and used" under FASB ASC Topic 360, an assessment must first be made as to whether the asset (asset group) is impaired. FASB ASC paragraph 360-10-35-17 indicates that an impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). The staff would object to a write down of long-lived assets to a "normalized depreciation" value as representing an acceptable alternative to the approaches required in FASB ASC Topic 360.

The staff also believes that registrants must continually evaluate the appropriateness of useful lives assigned to long-lived assets, including identifiable intangible assets and goodwill. In the above fact pattern, management had contemplated removal of the mainframe computers beginning in January 20X2 and, more formally, in August 20X2 as part of compiling the 20X3 capital expenditures budget. At those times, at a minimum, management should have reevaluated the original useful life assigned to the computers to determine whether a seven year amortization period remained appropriate given the company's current facts and circumstances, including ongoing technological changes in the market place. This reevaluation process should have continued at the time of the September 20X2 board of directors' meeting to discuss capital expenditure plans and, further, as the company pursued mainframe computer bids. Given the contemporaneous evidence that management's best estimate during much of 20X2 was that the current mainframe computers would be removed from service in 20X3, the depreciable life of the computers should have been adjusted prior to 20X3 to reflect this new estimate. The staff does not view the recognition of an impairment charge to be an acceptable substitute for choosing the appropriate initial amortization or depreciation period or subsequently adjusting this period as company or industry conditions change. The staff's view applies also to selection of, and changes to, estimated residual values. Consequently, the staff may challenge impairment charges for which the timely evaluation of useful life and residual value cannot be demonstrated.

Question 3: Has the staff expressed any views with respect to company-determined estimates of cash flows used for assessing and measuring impairment of assets under FASB ASC Topic 360?

Interpretive Response: In providing guidance on the development of cash flows for purposes of applying the provisions of that Topic, FASB ASC paragraph 360-10-35-30 indicates that "estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall incorporate the entity's own assumptions about its use

of the asset (asset group) and shall consider all available evidence. The assumptions used in developing those estimates shall be reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others."

The staff recognizes that various factors, including management's judgments and assumptions about the business plans and strategies, affect the development of future cash flow projections for purposes of applying FASB ASC Topic 360. The staff, however, cautions registrants that the judgments and assumptions made for purposes of applying FASB ASC Topic 360 must be consistent with other financial statement calculations and disclosures and disclosures in MD&A. The staff also expects that forecasts made for purposes of applying FASB ASC Topic 360 be consistent with other forward-looking information prepared by the company, such as that used for internal budgets, incentive compensation plans, discussions with lenders or third parties, and/or reporting to management or the board of directors.

For example, the staff has reviewed a fact pattern where a registrant developed cash flow projections for purposes of applying the provisions of FASB ASC Topic 360 using one set of assumptions and utilized a second, more conservative set of assumptions for purposes of determining whether deferred tax valuation allowances were necessary when applying the provisions of FASB ASC Topic 740, Income Taxes. In this case, the staff objected to the use of inconsistent assumptions.

In addition to disclosure of key assumptions used in the development of cash flow projections, the staff also has required discussion in MD&A of the implications of assumptions. For example, do the projections indicate that a company is likely to violate debt covenants in the future? What are the ramifications to the cash flow projections used in the impairment analysis? If growth rates used in the impairment analysis are lower than those used by outside analysts, has the company had discussions with the analysts regarding their overly optimistic projections? Has the company appropriately informed the market and its shareholders of its reduced expectations for the future that are sufficient to cause an impairment charge? The staff believes that cash flow projections used in the impairment analysis must be both internally consistent with the company's other projections and externally consistent with financial statement and other public disclosures.

360 Property, Plant, and Equipment

20 Real Estate Sales

00 Status

General Note:The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General Note on Property, Plant, and Equipment—Real Estate Sales:Upon the effective date of Accounting Standards Update 2014-09, the title of this Subtopic will change to Property, Plant, and Equipment—Real Estate Sales—Sale-Leaseback Accounting.

General

360-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date

Conduit Debt Securities	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Conduit Debt Security	Added	Maintenance Update 2014-20	09/29/2014
Cost Recovery Method	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Deposit Method	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Fair Value (2nd def.)	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Fair Value (3rd def.)	Added	Accounting Standards Update No. 2012-04	10/01/2012
Installment Method	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Integral Equipment	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Market Participants	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Nonpublic Entity (1st def.)	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Nonpublic Entity (1st def.)	Amended	Maintenance Update 2014-20	09/29/2014
Orderly Transaction	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Reduced-Profit Method	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Related Parties	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Sale-Leaseback Accounting	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
Sale-Leaseback Accounting	Added	Accounting Standards Update No. 2014-09	05/28/2014
360-10-05-1	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
360-20-05-1	Amended	Accounting Standards Update No. 2014-09	05/28/2014
360-10-05-2	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
360-10-15-1 through 15-6	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
360-20-15-1 through 15-3	Amended	Accounting Standards Update No. 2014-09	05/28/2014
360-20-15-3	Amended	Accounting Standards Update No. 2011-10	12/14/2011
360-20-15-4	Amended	Accounting Standards Update No. 2012-04	10/01/2012
360-20-15-5	Amended	Accounting Standards Update No. 2012-04	10/01/2012
360-20-15-7	Amended	Accounting Standards Update No. 2012-04	10/01/2012
360-20-15-8	Amended	Accounting Standards Update No. 2012-04	10/01/2012
360-20-15-10	Amended	Accounting Standards Update No. 2016-01	01/05/2016
360-20-40-1 through 40-64	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
360-20-55-1 through 55-10	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
360-20-55-2	Amended	Maintenance Update 2016-17	09/02/2016
360-20-55-3	Amended	Accounting Standards Update No. 2016-19	12/14/2016
360-20-55-10	Amended	Maintenance Update 2016-11	06/27/2016
360-20-55-10	Amended	Accounting Standards Update No. 2014-09	05/28/2014
360-20-55-11	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
360-20-55-12 through 55-17	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
360-20-55-18	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
360-20-55-19 through 55-67	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
360-20-55-21	Amended	Accounting Standards Update No. 2014-09	05/28/2014
360-20-55-68 through 55-77	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
360-20-55-68 through 55-77	Added	Accounting Standards Update No. 2011-10	12/14/2011
360-20-60-1 through 60-3	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
360-20-65-2	Added	Accounting Standards Update No. 2011-10	12/14/2011

05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally

consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

ⓘ **General Note on Property, Plant, and Equipment—Real Estate Sales:** Upon the effective date of Accounting Standards Update 2014-09, the title of this Subtopic will change to Property, Plant, and Equipment—Real Estate Sales—Sale-Leaseback Accounting.

General

360-20-05-1 This Subtopic provides accounting guidance to determine if a sale of real estate has occurred for purposes of applying sale-leaseback accounting in Subtopic 840-40. The real estate sales guidance was placed under the Property, Plant, and Equipment Topic because it is applicable to all entities involved with real estate sale-leaseback transactions. Other guidance specific to the real estate subindustries is found in the related Real Estate Topics (Topics 970, 972, 974, 976, and 978).

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-05-2 The Codification contains several Topics for Real Estate due to the differing accounting treatment for various Real Estate subindustries. The Topics include:

a. Real Estate—General
b. Real Estate—Common Interest Realty Associations
c. Real Estate—Real Estate Investment Trusts
d. Real Estate—Retail Land
e. Real Estate—Time-Sharing Activities.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

15 Scope and Scope Exceptions

ⓘ **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note on Property, Plant, and Equipment—Real Estate Sales: Upon the effective date of Accounting Standards Update 2014-09, the title of this Subtopic will change to Property, Plant, and Equipment—Real Estate Sales—Sale-Leaseback Accounting.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are financial instruments. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Entities

360-20-15-1 This Subtopic establishes standards for recognition of profit on all real estate sale-leaseback transactions (see Subtopic 840-40 for additional guidance on sale-leaseback accounting) without regard to the nature of the seller's business.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-15-1 will be superseded upon transition, together with its heading.*

>**Entities**

Paragraph superseded by Accounting Standards Update No. 2016-02.

> Transactions

360-20-15-2 Determining whether a transaction is in substance the sale of real estate requires judgment. However, in making that determination, one shall consider the nature of the entire real estate component being sold (that is, the land plus the property improvements and integral equipment), and not the land only, in relation to the entire sale-leaseback transaction. Further, that determination shall not consider whether the operations in which the assets are involved are traditional or nontraditional real estate activities. For example, if a ski resort is sold and the lodge and ski lifts are considered to be affixed to the land (that is, they cannot be removed and used separately without incurring significant cost), then it would appear that the sale is in substance the sale of real estate and that the entire sale transaction would be subject to the provisions of this Subtopic. Transactions involving the sale of underlying land (or the sale of the property improvements or integral equipment subject to a lease of the underlying land) shall not be bifurcated into a real estate component (the sale of the underlying land) and a non-real-estate component (the sale of the lodge and lifts) for purposes of determining profit recognition on the transaction.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-15-2 will be superseded upon transition, together with its heading.*

>**Transactions**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-15-3 The guidance in this Subtopic applies to the following assets that are part of a sale-leaseback transaction within the scope of Subtopic 840-40:

a. Real estate, including real estate with property improvements or integral equipment. The terms *property improvements* and *integral equipment* as they are used in this Subtopic refer to any physical structure or equipment attached to the real estate that cannot be removed and used separately without incurring significant cost. Examples include an office building, a manufacturing facility, a power plant, and a refinery.

b. Property improvements or integral equipment subject to an existing lease of the underlying land should be accounted for in accordance with paragraphs 360-20-40-56 through 40-59.

c. An investment in the form of a financial asset that is in substance real estate.

d. Timberlands or farms (that is, land with trees or crops attached to it).

e. Subparagraph superseded by Accounting Standards Update No. 2014-09.

f. Subparagraph superseded by Accounting Standards Update No. 2014-09.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-15-4 The determination of whether equipment is integral equipment shall be based on the significance of the cost to remove the equipment from its existing location (which would include the cost of repairing damage done to the existing location as a result of the removal), combined with the decrease in the fair value of the equipment as a result of that removal.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-15-5 At a minimum, the decrease in the fair value of the equipment as a result of its removal is the estimated cost to ship and reinstall the equipment at a new site. If there are multiple potential users of the leased equipment, the estimate of the fair value of the equipment as well as the costs to ship and install the equipment shall assume that the equipment will be sold to the potential user that would result in the greatest net cash proceeds to the seller (current lessor).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-15-6 The nature of the equipment, and the likely use of the equipment by other potential users, shall be considered in determining whether any additional diminution in fair value exists beyond that associated with costs to ship and install the equipment.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-15-7 When the combined total of both the cost to remove plus the decrease in fair value (for leasing transactions, the information used to estimate those costs and the decrease in fair value shall be as of lease inception) exceeds 10 percent

of the fair value of the equipment (installed) (for leasing transactions, at lease inception), the equipment is integral equipment.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-15-8 The phrase *cannot be removed and used separately without incurring significant cost* contains both of the following distinct concepts:

a. The ability to remove the equipment without incurring significant cost

b. The ability of a different entity to use the equipment at another location without significant diminution in utility or fair value.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-15-9 The guidance in paragraphs 360-20-40-50 through 40-55 applies only to individual units in a condominium project or time-sharing interests being sold separately.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-15-10 The guidance in this Subtopic does not apply to the following transactions and activities:

a. The sale of only property improvements or integral equipment without a concurrent (or contemplated) sale of the underlying land, except for sales of property improvements or integral equipment with the concurrent lease (whether explicit or implicit in the transaction) of the underlying land to the buyer

b. The sale of the stock or net assets of a subsidiary or a segment of a business if the assets of that subsidiary or that segment, as applicable, contain real estate, unless the transaction is, in substance, the sale of real estate

c. Exchanges of real estate for other real estate (see Topic 845)

d. The sale of securities that are accounted for in accordance with Topic 320 or Topic 321 (sales of such securities are addressed in Topic 860)

e. Retail land sales

f. Natural assets such as those that have been extracted from the land (for example, oil, gas, coal, and gold).Mineral interests in properties include fee ownership or a lease, concession, or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of that interest. Mineral interests in properties also include royalty interests, production payments payable in oil or gas, and other nonoperating mineral interests in properties operated by others. See Topic 932 .

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

20 Glossary

General Note:The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

General Note on Property, Plant, and Equipment—Real Estate Sales:Upon the effective date of Accounting Standards Update 2014-09, the title of this Subtopic will change to Property, Plant, and Equipment—Real Estate Sales—Sale-Leaseback Accounting.

Conduit Debt Securities

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

Cost Recovery Method

Under the cost recovery method, no profit is recognized until cash payments by the buyer, including principal and interest on debt due to the seller and on existing debt assumed by the buyer, exceed the seller's cost of the property sold.

Deposit Method

Under the deposit method, the seller does not recognize any profit, does not record notes receivable, continues to report in its financial statements the property and the related existing debt even if it has been assumed by the buyer, and discloses that those items are subject to a sales contract.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Installment Method

The installment method apportions each cash receipt and principal payment by the buyer on debt assumed between cost recovered and profit. The apportionment is in the same ratio as total cost and total profit bear to the sales value.

Integral Equipment

Integral equipment is any physical structure or equipment attached to the real estate that cannot be removed and used separately without incurring significant cost.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms

b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary

c. They are able to enter into a transaction for the asset or liability

d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Nonpublic Entity

Any entity that does not meet any of the following conditions:

a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.

b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.

d. It is required to file or furnish financial statements with the Securities and Exchange Commission.

e. It is controlled by an entity covered by criteria (a) through (d).

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Reduced-Profit Method

A reduced profit is determined by discounting the receivable from the buyer to the present value of the lowest level of annual payments required by the sales contract over the maximum period specified in paragraphs 360-20-40-19 through 40-20 and excluding requirements to pay lump sums.

Related Parties

Related parties include:

a. Affiliates of the entity

b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity

c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management

d. Principal owners of the entity and members of their immediate families

e. Management of the entity and members of their immediate families

f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Sale-Leaseback Accounting

A method of accounting for a sale-leaseback transaction in which the seller-lessee records the sale, removes all property and related liabilities from its balance sheet, recognizes gain or loss from the sale, and classifies the leaseback in accordance with the Lessees Subsections of Subtopic 840-40.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Glossary term superseded by Accounting Standards Update No. 2016-02.

40 Derecognition

General Note: The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General Note on Property, Plant, and Equipment—Real Estate Sales: Upon the effective date of Accounting Standards Update 2014-09, the title of this Subtopic will change to Property, Plant, and Equipment—Real Estate Sales—Sale-Leaseback Accounting.

General

360-20-40-1 This Section presents the real estate derecognition standards primarily from the perspective of the profit recognition upon a sale. It addresses various conditions that may or may not result in derecognition of the real estate asset (and related profit or loss recognition, if any). Depending on the specific conditions, a real estate sale transaction may not qualify as a final sale for accounting and reporting purposes. In such cases, the applicable standards provide different approaches to derecognizing the asset and recognizing the profit. In certain conditions, the deposit method (as described more fully in Section 360-20-55) results in the entity maintaining the real estate asset and continuing to depreciate the asset.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-2 This Section is divided between sales with full profit recognition, and sales with less than full profit recognition.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

> Criteria for Recognizing Profit on Sales of Real Estate Under Full Accrual Method

360-20-40-3 Profit shall be recognized in full when real estate is sold, provided that both of the following conditions are met:

a. The profit is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated.

b. The earnings process is virtually complete, that is, the seller is not obliged to perform significant activities after the sale to earn the profit.

Unless both conditions exist, recognition of all or part of the profit shall be postponed. Recognition of all of the profit at the time of sale or at some later date when both conditions exist is referred to as the full accrual method in this Subtopic.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Editor's Note*: The content of 360-20-40-3 will be superseded upon transition, together with its heading.*
>Criteria for Recognizing Profit on Sales of Real Estate Under Full Accrual Method
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-4 In accounting for sales of real estate, collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility shall also be assessed by considering factors such as the credit standing of the buyer, age and location of the property, and adequacy of cash flow from the property.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-5 Profit on real estate sales transactions shall not be recognized by the full accrual method until all of the following criteria are met:

a. A sale is consummated (see the following paragraph).

b. The buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property (see paragraphs 360-20-40-9 through 40-24).

c. The seller's receivable is not subject to future subordination (see paragraph 360-20-40-25).

d. The seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property (see paragraph 360-20-40-26).

Profit on a sale of a partial interest in real estate shall be subject to the same criteria for profit recognition as a sale of a whole interest.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-6 The following provides the detailed standards relevant to (a) through (d) in the preceding paragraph.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Consummation of a Sale

360-20-40-7 A sale shall not be considered consummated until all of the following conditions are met:

a. The parties are bound by the terms of a contract.

b. All consideration has been exchanged.

c. Any permanent financing for which the seller is responsible has been arranged.

d. All conditions precedent to closing have been performed. Paragraph 360-20-40-28 provides an exception to this requirement if the seller is constructing office buildings, condominiums, shopping centers, or similar structures.

Usually, those four conditions are met at the time of closing or after closing, not when an agreement to sell is signed or at a preclosing.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-7 will be superseded upon transition, together with its heading.*

> > **Consummation of a Sale**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Buyer's Initial and Continuing Investment

360-20-40-8 Sales value shall be determined by both of the following:

a. Adding to the stated sales price the proceeds from the issuance of a real estate option that is exercised and other payments that are in substance additional sales proceeds. These nominally may be management fees, points, or prepaid interest or fees that are required to be maintained in an advance status and applied against the amounts due to the seller at a later date.

b. Subtracting from the sale price a discount to reduce the receivable to its present value and by the net present value of services that the seller commits to perform without compensation or by the net present value of the services in excess of the compensation that will be received. Paragraph 360-20-40-43(d) specifies appropriate accounting if services are to be provided by the seller without compensation or at less than prevailing rates.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-8 will be superseded upon transition, together with its heading.*

> > **Buyer's Initial and Continuing Investment**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-9 Adequacy of a buyer's initial investment shall be measured by its composition (see the following paragraph and paragraph 360-20-40-13) and its size compared with the sales value of the property (see paragraph 360-20-40-18).

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-10 The buyer's initial investment shall include only the following:

a. Cash paid as a down payment

b. The buyer's notes supported by irrevocable letters of credit from an independent established lending institution, that is, an unrelated institution such as a commercial bank unaffiliated with the seller

c. Payments by the buyer to third parties to reduce existing indebtedness on the property

d. Other amounts paid by the buyer that are part of the sales value.

Other consideration received by the seller, including other notes of the buyer, shall be included as part of the buyer's initial investment only when that consideration is sold or otherwise converted to cash without recourse to the seller.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-11 An irrevocable financial instrument, such as a surety bond, from an established independent insuring institution (such as the Federal Housing Administration or Veterans Administration) insuring that the instrument has all the rights and obligations of an irrevocable letter of credit may be considered by the seller to be equivalent to an irrevocable letter of credit and included as part of the buyer's initial and continuing investment in determining whether it is appropriate to recognize profit under the full accrual method. The requirement in this Subtopic to demonstrate the buyer's commitment to pay is an important criterion that must be met before profit is recognized by the full accrual method.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-12 Mortgage insurance shall not be considered the equivalent of an irrevocable letter of credit in the determination of whether it is appropriate to recognize profit under the full accrual method because the purchase of mortgage insurance is not deemed to demonstrate a commitment by the buyer to honor its obligation to pay for the property.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-13 The initial investment shall not include any of the following:

a. Payments by the buyer to third parties for improvements to the property

b. A permanent loan commitment by an independent third party to replace a loan made by the seller

c. Any funds that have been or will be loaned, refunded, or directly or indirectly provided to the buyer by the seller or loans guaranteed or collateralized by the seller for the buyer. As an example, if unimproved land is sold for $100,000, with a down payment of $50,000 in cash, and the seller plans to loan the buyer $35,000 at some future date, the initial investment is $50,000 minus $35,000, or $15,000.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-14 The sale of real estate often involves significant financing relative to the sales price. That financing may be provided by independent third parties, the seller, or both. The financing may involve a nonrecourse mortgage (that is, the lender's only recourse upon default of the buyer is to repossess the underlying real estate) and it may involve the buyer's assumption of preexisting recourse or nonrecourse mortgage obligations of the seller.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-15 In considering how profit should be recognized under this Subtopic when a real estate sales transaction involves various forms of financing, the initial and continuing investment requirements for the full accrual method of profit recognition of this Subtopic shall be applicable unless the seller receives any of the following as the full sales value of the property:

a. Cash, without any seller contingent liability on any debt on the property incurred or assumed by the buyer
b. The buyer's assumption of the seller's existing nonrecourse debt on the property
c. The buyer's assumption of all recourse debt on the property with the complete release of the seller from those obligations
d. Any combination of such cash and debt assumption.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-16 When the seller has unconditionally received all amounts it is entitled to from the sale and is not at risk related to the financing, the buyer's commitment to pay for the property is not a factor in the seller's recognition of profit.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-17 To recognize profit by the full accrual method, debt incurred by the buyer that is secured by the property, whether incurred directly from the seller or other parties or indirectly through assumption, and payments to the seller from the proceeds of such indebtedness shall not be included as part of the buyer's initial investment. A sufficient amount of the buyer's own cash or other qualifying forms of investment demonstrates the buyer's commitment to pay for the property; however, the buyer's borrowing secured by the property does not demonstrate such a commitment.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-18 The buyer's initial investment shall be adequate to demonstrate the buyer's commitment to pay for the property and shall indicate a reasonable likelihood that the seller will collect the receivable. Lending practices of independent established

lending institutions provide a reasonable basis for assessing the collectibility of receivables from buyers of real estate. Therefore, to qualify, the initial investment shall be equal to at least a major part of the difference between usual loan limits and the sales value of the property. Guidance on minimum initial investments in various types of real estate is provided in paragraphs 360-20-55-1 through 55-2.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-19 The buyer's continuing investment in a real estate transaction shall not qualify unless the buyer is contractually required to pay each year on its total debt for the purchase price of the property an amount at least equal to the level annual payment that would be needed to pay that debt and interest on the unpaid balance over no more than the following:

a. Twenty years for debt for land

b. The customary amortization term of a first mortgage loan by an independent established lending institution for other real estate.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-20 For the purpose of evaluating the buyer's continuing investment, contractually required payments by the buyer on its debt shall be in the forms specified in paragraph 360-20-40-10 as acceptable for an initial investment. Except as indicated in the following sentence, funds to be provided directly or indirectly by the seller (see paragraph 360-20-40-13[c]) shall be subtracted from the buyer's contractually required payments in determining whether the initial and continuing investments are adequate. If a future loan on normal terms from an established lending institution bears a fair market interest rate and the proceeds of the loan are conditional on use for specified development of or construction on the property, the loan need not be subtracted in determining the buyer's investment.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Release Provisions

360-20-40-21 An agreement to sell property (usually land) may provide that part or all of the property may be released from liens securing related debt by payment of a release price or that payments by the buyer may be assigned first to released property. If either of those conditions is present, a buyer's initial investment shall be sufficient both to pay release prices on property released at the date of sale and to constitute an adequate initial investment on property not released or not subject to release at that time in order to meet the criterion of an adequate initial investment for the property as a whole.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: The content of 360-20-40-21 will be superseded upon transition, together with its heading.*
> > > **Release Provisions**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-22 If the release conditions described in the preceding paragraph are present, the buyer's investment shall be sufficient, after the released property is paid for, to constitute an adequate continuing investment on property not released in order to meet the criterion of an adequate continuing investment for the property as a whole (see paragraphs 360-20-40-19 through 40-20).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-23 If the amounts applied to unreleased portions do not meet the initial and continuing-investment criteria as applied to the sales value of those unreleased portions, profit shall be recognized on each released portion when it meets the criteria in paragraph 360-20-40-5 as if each release were a separate sale.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-24 Tests of adequacy of a buyer's initial and continuing investments described in paragraphs 360-20-40-9 through 40-23 shall be applied cumulatively when the sale is consummated and annually afterward. If the initial investment exceeds the minimum prescribed, the excess shall be applied toward the required annual increases in the buyer's investment.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Future Subordination

360-20-40-25 The seller's receivable shall not be subject to future subordination. This restriction shall not apply if a receivable is subordinate to a first mortgage on the property existing at the time of sale or a future loan, including an existing permanent loan commitment, is provided for by the terms of the sale and the proceeds of the loan will be applied first to the payment of the seller's receivable.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-25 will be superseded upon transition, together with its heading.*

> > **Future Subordination**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Continuing Involvement without Transfer of Risks and Rewards

360-20-40-26 If a seller is involved with a property after it is sold in any way that results in retention of substantial risks or rewards of ownership, except as indicated in paragraph 360-20-40-64, the absence-of-continuing-involvement criterion has not been met. Forms of involvement that result in retention of substantial risks or rewards by the seller, and accounting therefore, are described in paragraphs 360-20-40-37 through 40-63.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: The content of 360-20-40-26 will be superseded upon transition, together with its heading.

> > Continuing Involvement without Transfer of Risks and Rewards

Paragraph superseded by Accounting Standards Update No. 2016-02.

> Recognition of Profit When the Full Accrual Method Is Not Appropriate

360-20-40-27 If a real estate sales transaction does not satisfy the criteria in paragraphs 360-20-40-3 through 40-26 for recognition of profit by the full accrual method, the transaction shall be accounted for as specified in paragraphs 360-20-40-28 through 40-64.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: The content of 360-20-40-27 will be superseded upon transition, together with its heading.

>Recognition of Profit When the Full Accrual Method Is Not Appropriate

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Sale Not Consummated

360-20-40-28 The deposit method of accounting described in paragraphs 360-20-55-17 through 55-20 shall be used until a sale has been consummated (see paragraph 360-20-40-7). Consummation usually requires that all conditions precedent to closing have been performed, including that the building be certified for occupancy. However, because of the length of the construction period of office buildings, apartments, condominiums, shopping centers, and similar structures, such sales and the related income may be recognized during the process of construction, subject to the criteria in paragraphs 360-20-40-61 through 40-63, even though a certificate of occupancy, which is a condition precedent to closing, has not been obtained.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: The content of 360-20-40-28 will be superseded upon transition, together with its heading.

> > Sale Not Consummated

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-29 If the net carrying amount of the property exceeds the sum of the deposit received, the fair value of the unrecorded note receivable, and the debt assumed by the buyer, the seller shall recognize the loss at the date the agreement to sell is signed. If a buyer defaults, or if circumstances after the transaction indicate that it is probable the buyer will default and the property will revert to the seller, the seller shall evaluate whether the circumstances indicate a decline in the value of the property for which an allowance for loss should be provided.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-30 Paragraph 970-360-35-3 specifies the accounting for property that is substantially completed and that is to be sold.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Buyer's Initial or Continuing Investments Do Not Qualify

360-20-40-31 If the buyer's initial investment does not meet the criteria specified in paragraphs 360-20-40-9 through 40-18 for recognition of profit by the full accrual method and if recovery of the cost of the property is reasonably assured if the buyer defaults, the installment method described in paragraphs 360-20-55-7 through 55-12 shall be used. If recovery of the cost of the property is not reasonably assured if the buyer defaults or if cost has already been recovered and collection of additional amounts is uncertain, the cost recovery method (described in paragraphs 360-20-55-13 through 55-15) or the deposit method (described in paragraphs 360-20-55-17 through 55-20) shall be used. The cost recovery method may be used to account for sales of real estate for which the installment method would be appropriate.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: The content of 360-20-40-31 will be superseded upon transition, together with its heading.*

> > **Buyer's Initial or Continuing Investments Do Not Qualify**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-32 Under the installment, cost recovery, and reduced-profit recognition methods, debt incurred by the buyer that is secured by the property, whether incurred directly from the seller or other parties or indirectly through assumption, and payments to the seller from the proceeds of such indebtedness shall not be considered buyer's cash payments. However, if the profit deferred under the applicable method exceeds the outstanding amount of seller financing and the outstanding amount of buyer's debt secured by the property for which the seller is contingently liable, the seller shall recognize the excess in income.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-33 If the initial investment meets the criteria in paragraphs 360-20-40-9 through 40-18 but the continuing investment by the buyer does not meet the criteria in paragraphs 360-20-40-19 through 40-20 and 360-20-40-24, the seller shall recognize profit by the reduced profit method described in paragraphs 360-20-55-16 and 360-20-55-61 through 55-64 at the time of sale if payments by the buyer each year will at least cover both of the following:

a. The interest and principal amortization on the maximum first mortgage loan that could be obtained on the property

b. Interest, at an appropriate rate, on the excess of the aggregate actual debt on the property over such a maximum first mortgage loan (paragraphs 835-30-25-12 through 25-13 provide criteria for selecting an appropriate rate for present-value calculations).

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-34 If the criteria specified in the preceding paragraph for use of the reduced profit method are not met, the seller may recognize profit by the installment method (see paragraphs 360-20-55-7 through 55-12) or the cost recovery method (see paragraphs 360-20-55-13 through 55-15).

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Graduated Payment Mortgage

360-20-40-35 A sale involving a graduated payment mortgage that does not meet the continuing investment tests in this Subtopic (because of the negative loan amortization) shall not result in full immediate profit recognition.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-35 will be superseded upon transition, together with its heading.*

> > **Graduated Payment Mortgage**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Future Subordination

360-20-40-36 If the seller's receivable is subject to future subordination as described in paragraph 360-20-40-25, profit shall be recognized by the cost recovery method (see paragraphs 360-20-55-13 through 55-15).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-36 will be superseded upon transition, together with its heading.*

> > **Future Subordination**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Continuing Involvement without Transfer of Risks and Rewards

360-20-40-37 If the seller has some continuing involvement with the property and does not transfer substantially all of the risks and rewards of ownership, profit shall be recognized by a method determined by the nature and extent of the seller's continuing involvement. Generally, profit shall be recognized at the time of sale if the amount of the seller's loss of profit because of continued involvement with the property is limited by the terms of the sales contract. The profit recognized shall be reduced by the maximum exposure to loss. Paragraphs 360-20-40-38 through 40-64 describe some common forms of continuing involvement and specify appropriate accounting if those forms of involvement are present. If the seller has some other form of continuing involvement with the property, the transaction shall be accounted for according to the nature of the involvement.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-37 will be superseded upon transition, together with its heading.*

> > **Continuing Involvement without Transfer of Risks and Rewards**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Seller Option or Obligation to Repurchase

360-20-40-38 If the seller has an obligation to repurchase the property, or the terms of the transaction allow the buyer to compel the seller or give an option to the seller to repurchase the property, the transaction shall be accounted for as a financing, leasing, or profit-sharing arrangement rather than as a sale. A right of first refusal based on a bona fide offer by a third party ordinarily is not an obligation or an option to repurchase. See paragraph 360-20-55-21A for implementation guidance related to evaluating a buy-sell agreement in cases where the seller of the real estate has otherwise met the criteria to recognize a partial sale.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: The content of 360-20-40-38 will be superseded upon transition, together with its heading.

> > > **Seller Option or Obligation to Repurchase**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-39 Land sale agreements sometimes contain antispeculation clauses that require the buyer to develop the land in a specific manner or within a stated period of time. Antispeculation clauses may also prohibit certain uses of the property. If the buyer fails to comply with the provisions of the sales contract, the seller has the right, but not the obligation, to reacquire the property. The seller's contingent option described would not preclude recognition of a sale if the probability of the buyer not complying is remote. A number of factors might lead one to conclude that buyer noncompliance is remote, including the economic loss to the buyer from repurchase and the buyer's perceived ability to comply with the provisions of the sales contract. A probability test would not be appropriate if the seller's repurchase option is not contingent upon compliance by the buyer.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Seller Is General Partner in Acquiring Limited Partnership

360-20-40-40 If the seller is a general partner in a limited partnership that acquires an interest in the property sold (or has an extended, noncancelable management contract requiring similar obligations) and holds a receivable from the buyer for a significant part of the sales price, the transaction shall be accounted for as a financing, leasing, or profit-sharing arrangement. For this purpose, a significant receivable is a receivable in excess of 15 percent of the maximum first-lien financing that could be obtained from an independent established lending institution for the property. It would include any of the following:

a. A construction loan made or to be made by the seller to the extent that it exceeds the minimum funding commitment for permanent financing from a third party that the seller will not be liable for

b. An all-inclusive or wraparound receivable held by the seller to the extent that it exceeds prior-lien financing for which the seller has no personal liability

c. Other funds provided or to be provided directly or indirectly by the seller to the buyer

d. The present value of a land lease when the seller is the lessor (see paragraph 360-20-40-58).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: The content of 360-20-40-40 will be superseded upon transition, together with its heading.

> > > **Seller Is General Partner in Acquiring Limited Partnership**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Seller Guarantees

360-20-40-41 The seller may guarantee the return of the buyer's investment or a return on that investment for a limited or extended period. For example, the seller guarantees cash flows, subsidies, or net tax benefits. If the seller guarantees return of the buyer's investment or if the seller guarantees a return on the investment for an extended period, the transaction shall be accounted for as a financing, leasing, or profit-sharing arrangement. If the guarantee of a return on the investment is for a limited period, the deposit method shall be used until operations of the property cover all operating expenses, debt service, and contractual payments. At that time, profit shall be recognized on the basis of performance of the services required, as illustrated in paragraphs 360-20-55-44 through 55-48.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-41 will be superseded upon transition, together with its heading.*
> > > **Seller Guarantees**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Seller Supports Operations

360-20-40-42 The seller may be required to initiate or support operations or continue to operate the property at its own risk, or may be presumed to have such a risk, for an extended period, for a specified limited period, or until a specified level of operations has been obtained, for example, until rentals of a property are sufficient to cover operating expenses and debt service.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-42 will be superseded upon transition, together with its heading.*
> > > **Seller Supports Operations**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-43 If support is required or presumed to be required for an extended period of time, the transaction shall be accounted for as a financing, leasing, or profit-sharing arrangement. Support shall be presumed to be required if any of the following conditions exist:

a. A seller obtains an interest as a general partner in a limited partnership that acquires an interest in the property sold.

b. A seller retains an equity interest in the property, such as an undivided interest or an equity interest in a joint venture that holds an interest in the property.

c. A seller holds a receivable from a buyer for a significant part of the sales price and collection of the receivable depends on the operation of the property.

d. A seller agrees to manage the property for the buyer on terms not usual for the services to be rendered, and the agreement is not terminable by either the seller or the buyer. If the sales contract requires the seller to provide management services relating to the property after the sale without compensation or at compensation less than prevailing rates for the service required (see paragraph 360-20-40-8) or on terms not usual for the services to be rendered, compensation shall be imputed when the sale is recognized and shall be recognized in income as the services are performed over the term of the management contract.

e. If the sales contract does not stipulate the period during which the seller is obligated to support operations of the property, support shall be presumed for at least two years from the time of initial rental unless actual rental operations cover operating expenses, debt service, and other contractual commitments before that time. If the seller is contractually obligated for a longer time, profit recognition shall continue on the basis of performance until the obligation expires. Calculation of profits on the basis of performance of services is illustrated in Example 2 (see paragraph 360-20-55-44).

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-44 If support is required or presumed to be required for a limited time, profit on the sale shall be recognized on the basis of performance of the services required. Performance of those services shall be measured by the costs incurred and to be incurred over the period during which the services are performed. Profit shall begin to be recognized when there is reasonable assurance that future rent receipts will cover operating expenses and debt service including payments due the seller under the terms of the transaction. Reasonable assurance that rentals will be adequate would be indicated by objective information regarding occupancy levels and rental rates in the immediate area. In assessing whether rentals will be adequate to justify recognition of profit, total estimated future rent receipts of the property shall be reduced by one-third as a reasonable safety factor unless the amount so computed is less than the rents to be received from signed leases. In

this event, the rents from signed leases shall be substituted for the computed amount. Application of this method is illustrated in Example 2 (see paragraph 360-20-55-44).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Buyer Option to Purchase Property

360-20-40-45 The transaction may be merely an option to purchase the property. For example, undeveloped land may be sold under terms that call for a very small initial investment by the buyer (substantially less than the percentages specified in paragraph 360-20-55-2) and postponement of additional payments until the buyer obtains zoning changes or building permits or other contingencies specified in the sales agreement are satisfactorily resolved. Proceeds from the issuance of the option by a property owner shall be accounted for as a deposit (see paragraphs 360-20-55-17 through 55-20). Profit shall not be recognized until the option either expires or is exercised. When an option to purchase real estate is sold by an option holder, the seller of the option shall recognize income by the cost recovery method (see paragraphs 360-20-55-13 through 55-15) to the extent nonrefundable cash proceeds exceed the seller's cost of the option if the buyer's initial and continuing investments are not adequate for profit recognition by the full accrual method (see paragraphs 360-20-40-8 through 40-24). When an option to purchase real estate is sold by an option holder, the sales value includes the exercise price of the option and the sales price of the option. For example, if the option is sold for $150,000 ($50,000 cash and a $100,000 note) and the exercise price is $500,000, the sales value is $650,000.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-45 will be superseded upon transition, together with its heading.*
> > > **Buyer Option to Purchase Property**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Partial Sale by Seller

360-20-40-46 A sale is a partial sale if the seller retains an equity interest in the property or has an equity interest in the buyer. Profit (the difference between the sales value and the proportionate cost of the partial interest sold) shall be recognized at the date of sale if all of the following conditions are met:

a. The buyer is independent of the seller.

b. Collection of the sales price is reasonably assured (see paragraph 360-20-40-4).

c. The seller will not be required to support the operations of the property or its related obligations to an extent greater than its proportionate interest.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-40-46 will be superseded upon transition, together with its heading.*
> > > **Partial Sale by Seller**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-47 If the buyer is not independent of the seller, for example, if the seller holds or acquires an equity interest in the buyer, the seller shall recognize the part of the profit proportionate to the outside interests in the buyer at the date of sale. If the seller controls the buyer, no profit on the sale shall be recognized until it is realized from transactions with outside parties through sale or operations of the property.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-48 If collection of the sales price is not reasonably assured, the cost recovery or installment method of recognizing profit shall be used.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-49 If the seller is required to support the operations of the property after the sale, the accounting shall be based on the nature of the support obligation. For example, the seller may retain an interest in the property sold and the buyer may receive preferences as to profits, cash flows, return on investment, and so forth. If the transaction is in substance a sale, the seller shall recognize profit to the extent that proceeds from the sale, including receivables from the buyer, exceed all of the seller's costs related to the entire property. Other examples of support obligations are described in paragraphs 360-20-40-42 through 40-43.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Sale of Condominium Units

360-20-40-50 The following guidance through paragraph 360-20-40-55 is limited to the sale of individual units in a condominium project. A condominium project may be a building, a group of buildings, or a complete project. If individual units in condominium projects or time-sharing interests are being sold separately and all the following criteria are met, profit shall be recognized by the percentage-of-completion method on the sale of individual units or interests:

a. Construction is beyond a preliminary stage. Construction is not beyond a preliminary stage if engineering and design work, execution of construction contracts, site clearance and preparation, excavation, and completion of the building foundation are incomplete.

b. The buyer is committed to the extent of being unable to require a refund except for nondelivery of the unit or interest. The buyer may be able to require a refund, for example, if a minimum status of completion of the project is required by state law and that status has not been attained; if state law requires that a declaration of condominium be filed and it has not been filed, except that in some states the filing of the declaration is a routine matter and the lack of such filing may not make the sales contract voidable; if the sales contract provides that permanent financing at an acceptable cost must be available to the buyer at the time of closing and it is not available; or if the condominium units must be registered with either the Office of Interstate Land Sales Registration of the Department of Housing and Urban Development or the Securities and Exchange Commission (SEC), and they are not so registered.

c. Sufficient units have already been sold to assure that the entire property will not revert to rental property. In determining whether this condition has been met, the seller shall consider the requirements of state laws, the condominium or time-sharing contract, and the terms of the financing agreements.

d. Sales prices are collectible (see paragraph 360-20-40-4).

e. Aggregate sales proceeds and costs can be reasonably estimated. Consideration shall be given to sales volume, trends of unit prices, demand for the units including seasonal factors, developer's experience, geographical location, and environmental factors.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Editor's Note*: The content of 360-20-40-50 will be superseded upon transition, together with its heading.*

> > > **Sale of Condominium Units**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-51

In assessing the collectibility of the sales price pursuant to paragraph 360-20-40-50(d), an entity shall evaluate the adequacy of the buyer's initial and continuing investment to conclude that the sales price is collectible.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-52

Consistent with the requirements for sales of other types of real estate, the buyer's initial and continuing investments shall be in any of the forms specified in paragraph 360-20-40-10 and shall consider only the nonrefundable portion of such investments.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-53

An entity can meet the continuing investment criterion in paragraphs 360-20-40-19 through 40-20 by requiring the buyer to do either of the following:

a. Make additional payments during the construction term at least equal to the level annual payments that would be required to fund principal and interest on an amortizing customary mortgage for the remaining purchase price of the property (excess of the purchase price over the initial investment by the buyer)

b. Increase the minimum initial investment by an equivalent aggregate amount.

The remaining purchase price shall be determined based on the sales price of the property. The test shall be performed using a hypothetical loan between the seller and the buyer for the amount of the purchase price less the buyer's initial investment.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-54

If an entity is unable to meet the criteria in paragraph 360-20-40-50, including an assessment of collectibility using the initial and continuing investment tests described in paragraphs 360-20-40-9 through 40-20, then the entity shall apply the deposit method as described in paragraphs 360-20-55-17 through 55-20 until the criteria in paragraph 360-20-40-50 are met.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-55

On a reassessment date, an entity shall reassess all of the criteria in paragraph 360-20-40-50 to determine whether profit shall be recognized under the percentage-of-completion method. In reassessing the collectibility of the sales price, the

initial and continuing investment tests shall be applied prospectively from the reassessment date (as if the deposit was received on the reassessment date).

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Seller Sells Property Improvements and Leases the Underlying Land to the Buyer of the Improvements

360-20-40-56 If the seller sells property improvements (including integral improvements) and leases the underlying land to the buyer of the improvements, the transactions are interdependent and it is impracticable to distinguish between profits on the sale of the improvements and profits under the related lease (for guidance on leases, see Topic 840). The transaction shall be accounted for as a lease of both the land and improvements if the term of the land lease to the buyer from the seller of the improvements either:

a. Does not cover substantially all of the economic life of the property improvements, thus strongly implying that the transaction is in substance a lease of both land and improvements

b. Is not for a substantial period, for example, 20 years.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Editor's Note*: The content of 360-20-40-56 will be superseded upon transition, together with its heading.*
> > > **Seller Sells Property Improvements and Leases the Underlying Land to the Buyer of the Improvements**
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-57 If the land lease described in the preceding paragraph covers substantially all of the economic life of the improvements and extends for at least 20 years, the profit to be recognized on the sale of the improvements at the time of sale shall be the present value of the rental payments not in excess of the seller's cost of the land plus the sales value of the improvements minus the carrying value of the improvements and the land.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-58 The present value of the specified rental payments is the present value of the lease payments specified in the lease over the term of the primary indebtedness, if any, on the improvements, or over the customary amortization term of primary debt instruments on the type of improvements involved. The present value is computed at an interest rate appropriate for either:

a. Primary debt if the lease is not subordinated

b. Secondary debt if the lease is subordinated to loans with prior liens.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-59 Profit on either of the following shall be recognized when the land is sold or the rents in excess of the seller's cost of the land are accrued under the lease:

a. The buyer's rental payments on the land in excess of the seller's cost of the land

b. The rent to be received on the land after the maturity of the primary indebtedness on the improvements or other customary amortization term.

Calculations of profit in those circumstances are illustrated in Example 1, Cases C and D (see paragraphs 360-20-55-33 through 55-43).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Sale of Property with Leaseback to Seller for All or Part of Its Remaining Economic Life

360-20-40-60 The sale of the property may be accompanied by a leaseback to the seller of all or any part of the property for all or part of its remaining economic life. Real estate sale-leaseback transactions shall be accounted for in accordance with Subtopic 840-40.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: Paragraph 360-20-40-60 will be superseded upon transition, together with its heading:*

> > > **Sale of Property with Leaseback to Seller for All or Part of Its Remaining Economic Life**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Future Development Required by Seller

360-20-40-61 The sales contract or an accompanying agreement may require the seller to develop the property in the future, to construct facilities on the land, or to provide off-site improvements or amenities. The seller is involved with future development or construction work if the buyer is unable to pay amounts due for that work or has the right under the terms of the arrangement to defer payment until the work is done. If future costs of development can be reasonably estimated at the time of sale, profit allocable to the following shall be recognized when the sale of the land meets the criteria in paragraph 360-20-40-5:

a. Performance before the sale of the land

b. The sale of the land.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: Paragraph 360-20-40-61 will be superseded upon transition, together with its heading:*

> > > **Future Development Required by Seller**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-62 Profit allocable to performance after the sale shall be recognized by the percentage-of-completion method as development and construction proceed, provided that cost and profit can be reasonably estimated from the seller's previous experience.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-40-63 The profit shall be allocated to the sale of the land and the later development or construction work on the basis of estimated costs of each activity; the same rate of profit shall be attributed to each activity. No profit shall be recognized at

the time of sale if future costs of development cannot be reasonably estimated at that time.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Seller Participation in Future Profit from the Property Without Risk of Loss

360-20-40-64 If the seller will participate in future profit from the property without risk of loss (such as participation in operating profits or residual values without further obligation) and if the transaction otherwise qualifies for recognition of profit by the full accrual method, the transfer of risks and rewards of ownership and absence of continuing involvement criterion shall be considered met. The contingent future profits shall be recognized when they are realized. Paragraphs 450-30-25-1 and 450-30-50-1 address accounting for gain contingencies. All the costs of the sale shall be recognized at the time of sale; none shall be deferred to periods when the contingent profits are recognized.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: Paragraph 360-20-40-64 will be superseded upon transition, together with its heading:*

> > > **Seller Participation in Future Profit from the Property Without Risk of Loss**

Paragraph superseded by Accounting Standards Update No. 2016-02.

55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General Note on Property, Plant, and Equipment—Real Estate Sales: Upon the effective date of Accounting Standards Update 2014-09, the title of this Subtopic will change to Property, Plant, and Equipment—Real Estate Sales—Sale-Leaseback Accounting.

General

> Implementation Guidance

· > Accounting for Real Estate Sales under Full Accrual Method

· · > Minimum Initial Investment Requirements

360-20-55-1 Minimum initial investment requirements for sales, other than retail land sales, that are to be accounted for by the full accrual method are specified in paragraph 360-20-40-18. The table of minimum initial investments in the following

paragraph is based on usual loan limits for various types of properties. However, lenders' appraisals of specific properties may differ. Therefore, if a recently placed permanent loan or firm permanent loan commitment for maximum financing of the property exists with an independent established lending institution, the minimum initial investment should be whichever of the following is greater:

a. The minimum percentage of the sales value (see paragraph 360-20-40-8) of the property specified in the following paragraph

b. The lesser of:

1. The amount of the sales value of the property in excess of 115 percent of the amount of a newly placed permanent loan or firm permanent loan commitment from a primary lender that is an independent established lending institution

2. Twenty-five percent of the sales value.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-55-1 will be superseded upon transition, together with its headings.*

>Implementation Guidance

>>Accounting for Real Estate Sales under Full Accrual Method

>>>Minimum Initial Investment Requirements

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-2 This table does not cover every type of real estate property. To evaluate initial investments on other types of property, entities may make analogies to the types of properties specified, or the risks of a particular property can be related to the risks of the properties specified. Use of this table is illustrated in Example 1 (see paragraph 360-20-55-22).

	Minimum Initial Investment Expressed as a Percentage of Sales Value
Land	
Held for commercial, industrial, or residential development to commence within two years after sale	20
Held for commercial, industrial, or residential development to commence after two years	25
Commercial and Industrial Property	
Office and industrial buildings, shopping centers, and so forth:	
Properties subject to lease on a long-term lease basis to parties with satisfactory credit rating; cash flow currently sufficient to service all indebtedness	10
Single-tenancy properties sold to a buyer with a satisfactory credit rating	15
All other	20
Other income-producing properties (hotels, motels, marinas, mobile home parks, and so forth):	
Cash flow currently sufficient to service all indebtedness	15
Start-up situations or current deficiencies in cash flow	25
Multifamily Residential Property	
Primary residence:	
Cash flow currently sufficient to service all indebtedness	10
Start-up situations or current deficiencies in cash flow	15
Secondary or recreational residence:	
Cash flow currently sufficient to service all indebtedness	15
Start-up situations or current deficiencies in cash flow	25
Single-Family Residential Property (including condominium or cooperative housing)	
Primary residence of the buyer	5 [a]
Secondary or recreational residence	10 [a]

[a] If collectibility of the remaining portion of the sales price cannot be supported by reliable evidence of collection experience, the minimum initial investment shall be at least 60 percent of the difference between the sales value and the financing available from loans guaranteed by regulatory bodies such as the Federal Housing Administration or the Veterans Administration, or from independent, established lending institutions. This 60-percent test applies when independent first-mortgage financing is not used and the seller takes a receivable from the buyer for the difference between the sales value and the initial investment. If independent first mortgage financing is used, the adequacy of the initial investment on sales of single-family residential property should be determined in accordance with the preceding paragraph.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-3 A seller of owner-occupied single-family residential homes that finances a sale under an Federal Housing Administration or Veterans Administration government-insured program may use the normal down payment requirements or loan limits established under those programs as a surrogate for the down payment criteria set forth in paragraphs 360-20-55-1 through 55-2 and may record profit under the full accrual method provided that the mortgage receivable is insured from loss under the Federal Housing Administration or Veterans Administration program. In that specific circumstance, departure from the minimum initial investment criteria of this Section is justified because all of the credit risk associated with the receivable from the sale is transferred to the governmental agency. However, in all other circumstances (for example, seller financing using private mortgage insurance) the minimum initial investment criteria set forth in this Section shall be followed.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-4 One type of real estate property identified in the table of minimum initial investment requirements is commercial and industrial property. Although operating facilities such as manufacturing facilities, power plants, and refineries are not specified, those types of operating facilities meet the description of an industrial property.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-5 Other types of industrial property include the following:

a. Land and/or improvements that can be adapted for industrial use
b. A combination of land, improvements, and machinery integrated into a functioning unit to assemble, process, and manufacture products from raw materials or fabricated parts
c. Factories that render service, for example, laundries, dry cleaners, storage warehouses
d. Properties that produce natural resources, for example, oil wells.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Methods of Accounting for Real Estate Sales when Criteria for Full Accrual Method Are Not Met

360-20-55-6 Section 360-20-40 addressed the accounting under the full accrual method and provided the criteria for applying different methods in the absence of the full accrual method. The following describes the methods.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Editor's Note*: The content of 360-20-55-6 will be superseded upon transition, together with its heading.*
>>**Methods of Accounting for Real Estate Sales when Criteria for Full Accrual Method Are Not Met**
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Installment Method

360-20-55-7 As defined, the installment method apportions each cash receipt and principal payment by the buyer on debt assumed between cost recovered and profit. The apportionment is in the same ratio as total cost and total profit bear to the sales value. The calculation is illustrated in Example 3 (see paragraph 360-20-55-51).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

***Editor's Note**: The content of 360-20-55-7 will be superseded upon transition, together with its heading.*

>>>**Installment Method**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-8 If the stated interest rate is equal to or less than an appropriate interest rate, it is acceptable not to reduce the receivable to its present value. This ordinarily results in reducing profit recognized in the earlier years.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-9 Under the installment method, the receivable less profits not recognized does not exceed what the property value would have been if the property had not been sold.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-10 The income statement, or related notes to financial statements, for the period including the date of sale presents the sales value, the gross profit that has not yet been recognized, and the total cost of the sale. Revenue and cost of sales (or gross profit) are presented as separate items on the income statement or are disclosed in the notes when profit is recognized as earned.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-11 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-12 If after adoption of the installment method the transaction meets the requirements for the full accrual method (specified in paragraphs 360-20-40-3 through 40-26) of recognizing profit for real estate sales other than retail land sales, the seller may then change to the full accrual method. The remaining profit that was not recognized is recognized in income at that time.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Cost Recovery Method

360-20-55-13 As defined, under the cost recovery method, no profit is recognized until cash payments by the buyer, including principal and interest on debt due to the seller and on existing debt assumed by the buyer, exceed the seller's cost of the property sold. The receivable less profits not recognized, if any, does not exceed what the depreciated property value would have been if the property had not been sold. For an all-inclusive or wraparound receivable held by the seller, interest collected is recognized as income to the extent of, and as an appropriate offset to, interest expense on prior-lien financing for which the seller remains responsible.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-55-13 will be superseded upon transition, together with its heading.*

>>>**Cost Recovery Method**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-14 The income statement for the period including the date of sale presents the sales value, the gross profit that has not yet been recognized, and the total cost of the sale. Gross profit not yet recognized is offset against the related receivable on the balance sheet. Principal collections reduce the related receivable, and interest collections on such receivables increase the unrecognized gross profit on the balance sheet. Gross profit is presented as a separate item of revenue on the income statement when it is recognized as earned.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-15 If, after the adoption of the cost recovery method, the transaction meets the requirements for the full accrual method (specified in paragraphs 360-20-40-3 through 40-26), the seller may then change to the full accrual method. The remaining profit that was not recognized is recognized in income at that time.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Reduced-Profit Method

360-20-55-16 As defined, a reduced profit is determined by discounting the receivable from the buyer to the present value of the lowest level of annual payments required by the sales contract over the maximum period specified in paragraphs 360-20-40-19 through 40-20 and excluding requirements to pay lump sums. The present value is calculated using an appropriate interest rate, but not less than the rate stated in the sales contract. Paragraphs 835-30-25-12 through 25-13 provide criteria for selecting an appropriate rate for present-value calculations. This method permits profit to be recognized from level payments on the buyer's debt over the maximum term established in paragraphs 360-20-40-19 through 40-20 and postpones recognition of other profits until lump sum or other payments are made. See Example 6 (paragraph 360-20-55-60) for an illustration of the reduced-profit method.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-55-16 will be superseded upon transition, together with its heading.*

>>>**Reduced-Profit Method**

Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Deposit Method

360-20-55-17 As defined, under the deposit method, the seller does not recognize any profit, does not record notes receivable, continues to report in its financial statements the property and the related existing debt even if it has been assumed by the buyer, and discloses that those items are subject to a sales contract. The seller continues to charge depreciation to expense as a period cost for the property for which deposits have been received unless the property has been classified as held for sale in accordance with paragraphs 360-10-45-9 through 45-10. Cash received from the buyer, including the initial investment and subsequent collections of principal and interest, is reported as a deposit on the contract except that, for sales that are not retail land sales, portions of cash received that are designated by the contract as interest and are not subject to refund offset carrying charges (property taxes and interest on existing debt) on the property. Interest collected that is subject to refund and is included in the deposit account before a sale is consummated is accounted for as part of the buyer's initial investment (see paragraph 360-20-40-8) at the time the sale is consummated.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-55-17 will be superseded upon transition, together with its heading.*

>>>**Deposit Method**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-18 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-19 When a contract is cancelled without a refund, deposits forfeited are recognized as income. When deposits on retail land sales are ultimately recognized as sales, the interest portion is recognized as interest income.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-20 The seller's balance sheet presents nonrecourse debt assumed by the buyer among the liabilities; the debt assumed is not offset against the related property. The seller reports the buyer's principal payments on mortgage debt assumed as additional deposits with corresponding reductions of the carrying amount of the mortgage debt.

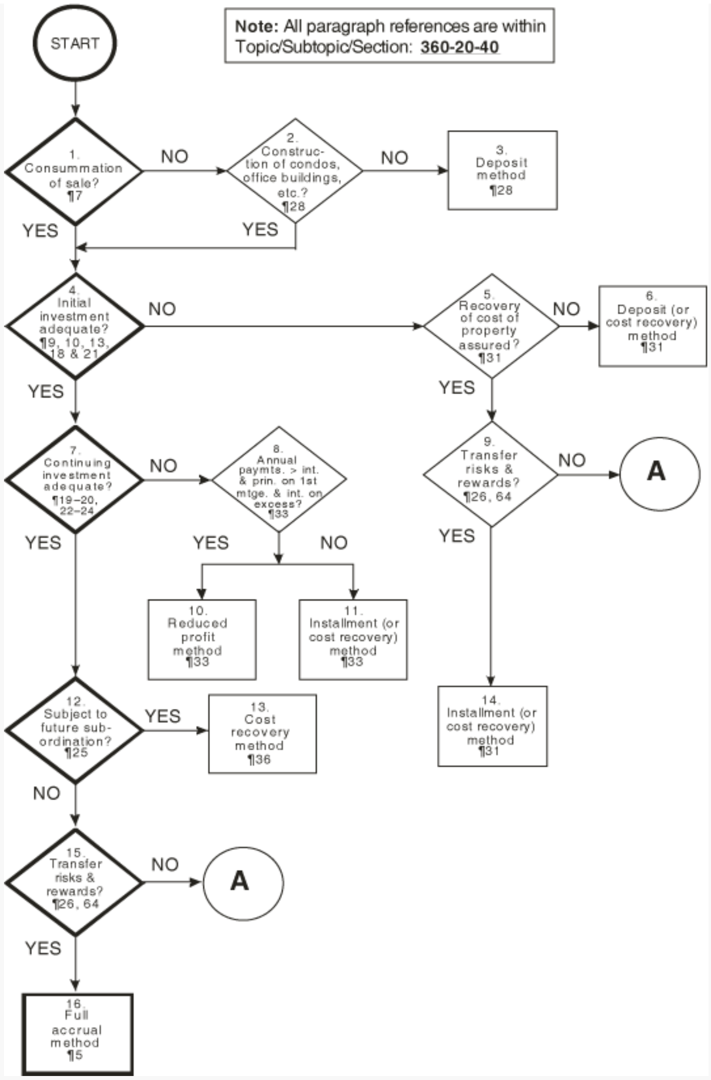
PENDING CONTENT

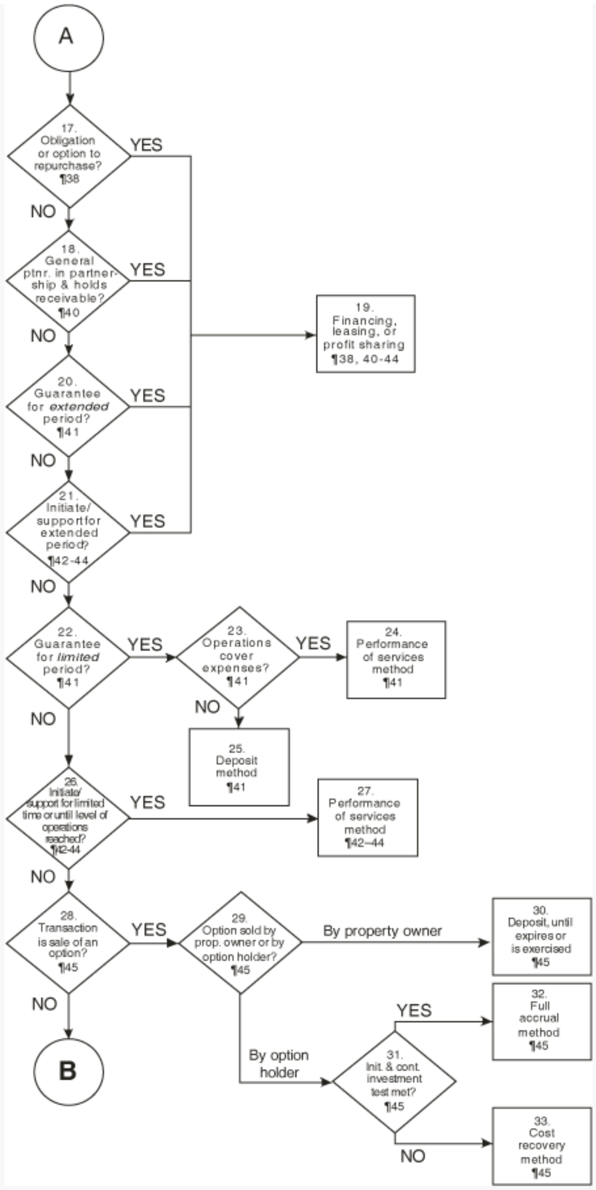
Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Decision Tree

360-20-55-21 The following decision tree is intended to provide an overview of the major provisions in this Subtopic that relate to the accounting for sales of real estate. It should not be used without further reference to the Subtopic. The decision tree is provided for sales of real estate in a sale-leaseback transaction. The highlighted boxes describe the general requirements for recognizing all of the profit on a sale of real estate other than a retail land sale at the date of sale.


Note: All paragraph references are within Topic/Subtopic/Section: 360-20-40
START
1. Consummation of sale? ¶7
NO
2. Construction of condos, office buildings, etc.? ¶28
NO
3. Deposit method ¶28
YES
YES
4. Initial investment adequate? ¶9, 10, 13, 18 & 21
NO
5. Recovery of cost of property assured? ¶31
NO
6. Deposit (or cost recovery) method ¶31
YES
YES
7. Continuing investment adequate? ¶19–20, 22–24
NO
8. Annual paymts. > int. & prin. on 1st mtge. & int. on excess? ¶33
9. Transfer risks & rewards? ¶26, 64
NO
A
YES
YES
NO
YES
10. Reduced profit method ¶33
11. Installment (or cost recovery) method ¶33
12. Subject to future subordination? ¶25
YES
13. Cost recovery method ¶36
14. Installment (or cost recovery) method ¶31
NO
15. Transfer risks & rewards? ¶26, 64
NO
A
YES
16. Full accrual method ¶5


A
17. Obligation or option to repurchase? ¶38
YES
NO
18. General ptnr. in partnership & holds receivable? ¶40
YES
NO
19. Financing, leasing, or profit sharing ¶38, 40-44
20. Guarantee for *extended* period? ¶41
YES
NO
21. Initiate/ support for extended period? ¶42-44
YES
NO
22. Guarantee for *limited* period? ¶41
YES
NO
23. Operations cover expenses? ¶41
YES
NO
24. Performance of services method ¶41
25. Deposit method ¶41
26. Initiate/ support for limited time or until level of operations reached? ¶42-44
YES
NO
27. Performance of services method ¶42–44
28. Transaction is sale of an option? ¶45
YES
NO
29. Option sold by prop. owner or by option holder? ¶45
By property owner
30. Deposit, until expires or is exercised ¶45
By option holder
31. Init. & cont. investment test met? ¶45
YES
NO
32. Full accrual method ¶45
33. Cost recovery method ¶45
B

B

· > Influence of a Buy-Sell Clause in Relation to Transfer of Risks and Rewards

360-20-55-21A This paragraph provides implementation guidance related to paragraph 360-20-40-38 regarding the transfer of risks and rewards. Determining whether the terms of a buy-sell clause indicate that the seller has transferred the usual risks and rewards of ownership and does not have substantial continuing involvement pursuant to that paragraph is a matter of judgment and requires consideration of all relevant facts and circumstances of the transaction at the time the real estate is sold. For purposes of this illustration, it is assumed that the seller of the real estate has met the criteria to recognize a partial sale, except for the potential effect of the buy-sell clause. A buy-sell clause, in and of itself, does not constitute a prohibited form of continuing involvement that would preclude partial sales treatment. However, a buy-sell clause should be evaluated, in consideration of all the relevant facts and circumstances, to determine whether the buy-sell clause gives the buyer an in-substance option to put its interest back to the seller or gives the seller an in-substance option to acquire the buyer's interest in the real estate. In the case of sales of real estate to an entity that is partially owned by the seller and the arrangement between the seller and the other investor of the jointly owned entity includes a buy-sell clause,the buy-sell clause should be evaluated, in consideration of all the relevant facts and circumstances, to determine whether the buy-sell clause gives the buyer an in-substance option to put its interest in the jointly owned entity back to the seller or gives the seller an in-substance option to acquire the buyer's interest in the jointly owned entity (thereby reacquiring the real estate).

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-55-21A will be superseded upon transition, together with its heading.*

>>Influence of a Buy-Sell Clause in Relation to Transfer of Risks and Rewards

Paragraph superseded by Accounting Standards Update No. 2016-02.

> Illustrations

· > Example 1: Effect of Land Lease—New Multifamily Residential Property

360-20-55-22 This Example illustrates the guidance in paragraph 360-20-55-2.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-55-22 will be superseded upon transition, together with its headings.*

>Illustrations

>>Example 1: Effect of Land Lease—New Multifamily Residential Property

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-23 Land improvements may be sold and concurrently the land under the improvements may be leased to the buyer of the improvements.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-24 This Example illustrates the effect of loans issued in connection with long-term land leases on evaluations of the adequacy of a buyer's initial investment if improvements on the land are sold separately. In addition, it demonstrates the limit that a lease places on profit recognition if the leased land is owned by the seller of the improvements, making the lease of land and sale of improvements interdependent transactions.

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-25 The calculations are illustrated in the following Cases:

a. Primary land lease—land owned by third party lessor—nonqualifying (Case A)

b. Primary land lease—land owned by third party lessor—qualifying (Case B)

c. Subordinated land lease—land owned by seller—qualifying (Case C)

d. Subordinated land lease—land owned by seller—nonqualifying (Case D).

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Case A: Primary Land Lease—Land Owned by Third Party Lessor—Nonqualifying

360-20-55-26 This Case has the following assumptions.

Assumptions:	
Sales price of improvements	$ 875,000
Represented by proceeds of:	
Cash down payment	$ 125,000
Loan by insurance company—lien on leasehold improvements, 28-year term, 8½%, payable in equal monthly installments of principal and interest	657,000
Note received by seller from buyer: 12-year term, 9½%, payable in equal monthly installments of principal and interest	93,000
	$ 875,000
Land lease for 99 years @ $19,000 per year, net, payable monthly in advance	
Cost of constructing improvements—$750,000	
No continuing involvement by seller	
Computations:	
Present value of 336 monthly payments on land lease of $1,583.33 discounted at 8½% (interest rate on loan from insurance company): $1,583.33 + ($1,583.33 x 127.9071)	$ 204,000
Loan from insurance company	657,000
Equivalent primary debt	861,000
Note receivable from buyer	93,000
Total debt or equivalent	954,000
Down payment	125,000
Sales value	$ 1,079,000

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: The content of 360-20-55-26 will be superseded upon transition, together with its heading.*

>>>**Case A: Primary Land Lease—Land Owned by Third Party Lessor—Nonqualifying**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-27 Because 15% of the sales value of the improvements is $161,850, the initial investment of $125,000 (about 12% of adjusted sales value) is inadequate to recognize profit on the sale of improvements. The second test is therefore irrelevant.

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Case B: Primary Land Lease—Land Owned by Third Party Lessor—Qualifying

360-20-55-28 This Case has the following assumptions.

Sales price of improvements	$ 875,000
Represented by proceeds of:	
Cash down payment	$165,000
Loan by insurance company: lien on leasehold improvements, 28-year term, 8½%, payable in equal monthly installments of principal and interest	657,000
Note received by seller from buyer: 12-year term, 9½%, payable in equal monthly installments of principal and interest	53,000
	$ 875,000
Land lease for 99 years @ $17,880 per year, net, payable monthly in advance	
Cost of constructing improvements—$750,000	
No continuing involvement by seller	
Computations:	
Present value of 336 monthly payments on land lease of $1,490 discounted at 8½% (interest rate on loan from insurance company): $1,490 + ($1,490 x 127.9071)	$ 192,000
Loan from insurance company	657,000
Equivalent primary debt	849,000
Note receivable from buyer	53,000
Total debt or equivalent	902,000
Down payment	165,000
Sales value	$ 1,067,000

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-55-28 will be superseded upon transition, together with its heading.*

>>>**Case B: Primary Land Lease—Land Owned by Third Party Lessor—Qualifying**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-29 Because 15% of the sales value of the improvements is $160,050, the initial investment of $165,000 (15% of the sales value) is adequate to recognize profit on the sale of improvements. However, the second test must also be applied.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-30 The initial investment required by the second test is as follows.

Sales value	$1,067,000
115% of $849,000 (loan from primary lender)	976,350
	$ 90,650

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-31 The initial investment of $165,000 exceeds the amount required, so recognition of profit on sale of improvements is appropriate. The second test may alternatively be applied as the ratio of total debt or equivalent to the equivalent primary debt: $902,000/$849,000 = 106%. Because 106% is less than 115%, the initial investment exceeds the difference between the sales value of the property and 115% of the equivalent primary debt.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-32 The following table illustrates profit recognition.

Sales price of improvements	$875,000
Less: Cost of improvements	750,000
Profit recognized at time of sale	$125,000

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Case C: Subordinated Land Lease—Land Owned by Seller—Qualifying

360-20-55-33 This Case has the following assumptions.

Sales price of improvements	$ 914,000
Represented by proceeds of:	
Cash down payment	$ 154,000
Loan by insurance company: first lien on the fee or on subordinated leasehold, 28-year term, 8 1/4%, payable in equal monthly installments of principal and interest	760,000
	$ 914,000
Land lease for 99 years @ $11,580/year, net, payable monthly in advance, and 5% of gross rents	
Cost of land—$200,000	
Cost of constructing improvements—$750,000	
No continuing involvement by seller	
Computations:	
Present value of 336 monthly payments on land lease at $965 discounted at 12% (imputed interest for a second lien receivable): $965 + ($965 x 96.432696)	$ 94,000
Loan from insurance company (primary debt)	760,000
Total debt or equivalent	854,000
Down payment	154,000
Sales value	$1,008,000
The initial investment ($154,000) is more than 15% of the sales value. (15% x $1,008,000 = $151,200).	
The initial investment is also larger than the excess of the sales value over 115% of the primary debt.	
Sales value	$1,008,000
115% of $760,000	874,000
Excess of sales value over 115% of debt	$ 134,000

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Editor's Note: *The content of 360-20-55-33 will be superseded upon transition, together with its heading.*
>>>**Case C: Subordinated Land Lease—Land Owned by Seller—Qualifying**
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-34 Therefore, the initial investment of $154,000 is adequate, and recognizing profit on the sale of the improvements is appropriate.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-35 Profit recognition is as follows.

Sales value		$1,008,000
Less: Cost of improvements	$750,000	
Cost of land	200,000	950,000
Profit recognized at time of sale		$ 58,000

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-36 The effect of including the present value of the lease is to reduce profit recognized by $106,000: $94,000 (present value of the land lease)—$200,000 (cost of land).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Case D: Subordinated Land Lease—Land Owned by Seller—Nonqualifying

360-20-55-37 This Case has the following assumptions.

Sales price of improvements	$ 875,000
Represented by proceeds of:	
Cash down payment	$ 132,000
Loan by insurance company: first lien on the fee or on subordinated leasehold, 28-year term, 8 1/4%, payable in equal monthly installments of principal and interest	743,000
	$ 875,000
Land lease for 99 years @ $19,332/year, net, payable monthly in advance	
Cost of land—$200,000	
Cost of improvements—$750,000	
No continuing involvement by seller	
Computations:	
Present value of 336 monthly payments on land lease of $1,611 discounted at 12% (imputed interest for a second lien receivable): $1,611 + ($1,611 × 96.432696)	$ 157,000
Loan from insurance company (primary debt)	743,000
Total debt or equivalent	900,000
Down payment	132,000
Sales value	$1,032,000

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

***Editor's Note**: The content of 360-20-55-37 will be superseded upon transition, together with its heading.*

>>>**Case D: Subordinated Land Lease—Land Owned by Seller—Nonqualifying**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-38 The initial investment ($132,000) is less than 15% of the sales value (15% x $1,032,000 = $154,800), and therefore is inadequate to recognize profit on sale of improvements. Profit recognized at time of sale should not exceed that recognizable under the installment method as if the subordinated lease were an installment receivable.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-39 Profit recognition on the installment method is as follows.

Sales value		$1,032,000
Less: Cost of improvements	$750,000	
Cost of land	200,000	950,000
Anticipated profit on sale of improvements		$ 82,000

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

360-20-55-40 Cash received or to be received by the seller, other than the proceeds of the primary loan, is as follows.

Down payment	$ 132,000
Present value of land lease payments	157,000
	$ 289,000

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-41 The percentage of profit in each collection is therefore as follows.

The percentage of profit in each collection is therefore:

$$\frac{\$82,000}{\$289,000} = 28.37\%$$

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-42 Profit recognizable in the period of sale is 28.37% of the down payment of $132,000, or $37,450. The remaining profit of $44,550 will be recognized at the rate of 28.37% of the portion of each lease payment that is equivalent to a reduction of principal on a loan of $157,000 for 28 years at 12%.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-43 The effect of including the present value of the lease in the sales value of the improvements is to reduce the profit recognized on the improvements by $43,000: $157,000 (present value of the land lease) — $200,000 (cost of the land).

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Example 2: Profit Recognition—Sale of Property with Construction and Support Obligations by Seller

360-20-55-44 This Example illustrates the method of accounting required for a sale of property in which the seller is obligated to construct multifamily units and in which cash flow deficits are anticipated. The Example applies to obligations of the seller specified in paragraphs 360-20-40-41 through 40-44 .

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: The content of 360-20-55-44 will be superseded upon transition, together with its heading.*

>>**Example 2: Profit Recognition—Sale of Property with Construction and Support Obligations by Seller**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-45 This Example has the following assumptions:

a. Entity X develops and sells multifamily residential projects. The Entity performs directly all developmental activities, including initial planning, site acquisition, obtaining of financing, and physical construction of the project.

b. During the year ended December 31, 19X1, the Entity began a project of 100 units. The project was planned and substantial activity had been performed in 19X1 but physical construction had not started as of December 31, 19X1. However, all contracts had been let, and the Entity had obtained construction financing.

c. On December 31, 19X1, the Entity sold the project to a limited partnership syndication (fully formed) in which it is the sole general partner, as illustrated in the following table.

Sales value	$ 1,100,000
Represented by proceeds of:	
Cash down payment	$ 165,000
Permanent financing assumed by the buyer, consisting of a 28-year 8½% fully amortizing first mortgage loan by a conventional lender, payable in equal monthly payments of principal and interest to maturity	825,000
Second mortgage note received by the Entity payable in equal monthly installments including interest at 9 1/2% over 12 years	110,000
	$ 1,100,000

d. The closing occurred on December 31, 19X1, and included delivery or performance of all of the following:

1. The Entity delivered to the buyer a legal title to the land and all existing improvements.
2. The Entity delivered to the buyer a firm commitment from an outside lender for permanent financing, and the buyer assumed permanent financing formerly in the name of the Entity.
3. The Entity received from the buyer $165,000 cash and a second mortgage note for $110,000.
4. The Entity signed a contract to deliver the completed project for a single price of $1,100,000.

e. Costs incurred by the Entity and total costs estimated to complete the project, as of December 31, 19X1, were as follows.

	Costs to Date	Estimated Costs to Complete	Total Estimated Costs
Land	$117,000		$117,000
Feasibility, zoning, architectural	35,000		35,000
Finance and other	85,000	$ 10,000	95,000
Site improvements		20,000	20,000
Building construction		571,000	571,000
Total	$237,000	$601,000	$838,000

f. The Entity has completed an extensive market research and feasibility study analyzing its cost estimates, the rent-up incubation period, and subsequent rent levels. The initial rent-up will commence in 19X2. Accordingly, a support period of two years is presumed for 19X3 and 19X4.

g. Based on its market analysis, the projected results are as follows.

	19X2	19X3	19X4
Rental expense	$ 37,000	$ 58,000	$ 58,000
Debt service	93,000	93,000	93,000
Total	130,000	151,000	151,000
Rental revenue	(75,000)	(150,000)	(180,000) (a)
Anticipated net deficit (surplus) in cash flow	55,000	1,000	(29,000)
Safety factor of 1/3 of rental revenue	25,000	50,000	60,000
Adjusted anticipated net deficit in cash flow	$ 80,000	$ 51,000	$ 31,000

(a) $180,000 equals 95% of gross scheduled rents.

h. Initial cost estimates by the Entity on previous projects have never varied from final costs by more than one-half of one percent of total costs.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-46 Schedules A and B illustrate calculations of profit to be recognized in the period of sale, in the period of construction, and in each period in which the seller will support operations (19X2 - 19X4). All of the following features should be noted:

a. The percentage of estimated total profit to be recognized each period is determined by the ratio of gross costs incurred to the end of the period to total estimated gross costs of the project, including gross costs during the period of support of operations. (Construction costs should be included even if construction is performed by parties other than the seller.)

b. The estimated total profit that is the basis of the calculation in each period (that is, the profit to which the percentage in [a] is applied) is determined by adding the sales value and two-thirds of the projected revenue during the period of support of operations and deducting the estimated total costs of the project, including costs of operating the property and debt service.

1. Actual amounts of revenue and costs are substituted for estimated amounts in the calculation as the actual amounts are known. However, in this Example, remaining estimates of future revenue and expense are not changed because of actual results even though experience might indicate that projections of future amounts should be revised.

2. Projected and actual revenues in the calculation should exclude amounts that accrue to the buyer, for example, revenue in excess of the sum of operating expenses and debt service.

3. One-third of projected revenue should be excluded from the estimate of profit to provide a margin of safety (see [g] in the preceding paragraph). Actual results incorporated in the calculation need not be reduced by a safety factor.

4. The calculation illustrated should be applied only if objective information is available regarding occupancy levels and rental rates for similar property in the immediate area. This will provide reasonable assurance that rent revenue from the project will be sufficient to cover operating expenses and debt service, including payments due to the seller under the terms of the transaction. Unless that evidence is available, no profit should be recognized on the transaction until rent revenue actually reaches levels that assure coverage of those costs.

c. Schedule A shows calculation of profit to be recognized each period on the assumption that actual revenue and costs are the same as those projected in (g) in the preceding paragraph adjusted for the safety margin of one-third of revenue.

d. Schedule B shows calculation of profit to be recognized each period on the assumption that actual revenue and costs are the same as those projected in (g) in the preceding paragraph before adjustment for safety margin.

e. Schedule C illustrates the calculation of estimated future rent receipts by adjustment for a safety margin.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· · > Schedule A: Example of Profit Calculation (Assuming Actual Rental Revenue Equals Adjusted Projection)

360-20-55-47 The following tables illustrate profit calculation.

Example of Profit Calculation
(assuming actual rental revenue equals adjusted projection)

REVENUES	
Sales value	$ 1,100,000
Adjusted—projected rental revenue (a)	
19X2	50,000
19X3	100,000
19X4	120,000
	$ 1,370,000

(a) Two-thirds of projected revenue during periods of support of operations; this can also be calculated as projected rental expenses plus projected debt service less projected deficit cash flow.

COSTS	
Total estimated costs of project (paragraph 360-20-55-45(e))	$ 838,000
Estimated rental expenses and debt service	
19X2	130,000
19X3	151,000
19X4	151,000
	1,270,000
TOTAL PROJECTED PROFIT	$ 100,000

Profit to be recognized:

$$\frac{\text{Cost to date}}{\text{Total costs}} \times \text{Projected profit}$$

Profit recognized in period of sale:

$$\frac{\$\,237{,}000}{1{,}270{,}000} \times \$100{,}000 = \$18{,}661$$

Total profit to date	$18,661
Less profit previously reported	-
Current profit recognition	$18,661

Profit recognized in period of construction:

$$\frac{\$\quad 838{,}000}{1{,}270{,}000} \times \$100{,}000 = \$65{,}984$$

Total profit to date	$65,984
Less profit previously recognized	18,661
Current profit recognition	$47,323

Profit recognized during support period (19X2):

$$\frac{\$\,968{,}000}{1{,}270{,}000} \times \$100{,}000 = \$76{,}221$$

Total profit to date	$ 76,221
Less profit previously recognized	65,984
Current profit recognition	$ 10,237

Profit recognized during support period (19X3):

$$\frac{\$\,1{,}119{,}000}{1{,}270{,}000} \times \$100{,}000 = \$88{,}110$$

Total profit to date	$88,110
Less profit previously recognized	76,221
Current profit recognition	$11,889

Profit recognized during support period (19X4):

$$\frac{\$\,1{,}270{,}000}{1{,}270{,}000} \times \$100{,}000 = \$100{,}000$$

Total profit to date	$100,000
Less profit previously recognized	88,110
Current profit recognition	$ 11,890

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: The content of 360-20-55-47 will be superseded upon transition, together with its heading.*

>>>**Schedule A: Example of Profit Calculation (Assuming Actual Rental Revenue Equals Adjusted Projection)**

· · > Schedule B: Example of Profit Calculation (Assuming Actual Rental Revenue Equals Unadjusted Projection)

360-20-55-48 The following tables illustrate profit calculation.

Example of Profit Calculation
(assuming actual rental revenue equals unadjusted projection)
(in thousands)

	Profit Recognized in Period of Sale	Profit Recognized in Period of Construction	Profit Recognized during Support Period 19X2	19X3	19X4
REVENUES					
Sales value	$ 1,100	$ 1,100	$1,100	$1,100	$1,100
Adjusted—projected rental revenue [(a)]					
19X2	50	50	75 [(b)]	75 [(b)]	75 [(b)]
19X3	100	100	100	150 [(b)]	150 [(b)]
19X4	120	120	120	150 [(c)]	151 [(d)]
	1,370	1,370	1,395	1,475	1,476
COSTS					
Same as Schedule A	1,270	1,270	1,270	1,270	1,270
TOTAL PROJECTED PROFIT	$ 100	$ 100	$ 125	$ 205	$ 206

(a) Two-thirds of projected revenue during periods of support of operations; this can also be calculated as projected rental expenses plus projected debt service less projected deficit cash flow.
(b) Actual rental revenue.
(c) Actual rental revenue excluding amounts not needed to meet cash flow requirements of the property.
(d) Because the property has attained a level of occupancy in excess of the original adjusted projection, and there is no reason to believe that such occupancy level cannot be sustained, the projected 19X4 rental revenue should be adjusted to 19X3 actual rental revenue.

Profit to be recognized:

$$\frac{\text{Cost to date}}{\text{Total costs}} \times \text{Projected profit}$$

Profit recognized in period of sale:

$$\frac{\$\ 237{,}000}{1{,}270{,}000} \times \$100{,}000 = \$18{,}661$$

Total profit to date	$ 18,661
Less profit previously reported	-
Current profit recognition	$ 18,661

Profit recognized in period of construction:

$$\frac{\$\ 838{,}000}{1{,}270{,}000} \times \$100{,}000 = \$65{,}984$$

Total profit to date	$65,984
Less profit previously reported	18,661
Current profit recognition	$47,323

Profit recognized during support period

$$\frac{\$\ 968{,}000}{1{,}270{,}000} \times \$125{,}000 = \$95{,}276$$

Total profit to date	$95,276
Less profit previously reported	65,984

· · > Schedule C: Calculation of Adjusted Projected Rental Revenue

360-20-55-49 Assume an office building under development is sold together with an agreement to support operations of the property for three years. The projected annual rent roll is $1,000,000 of which $350,000 is supported by signed lease agreements. The projected rental revenue for the first year of operation is $600,000; the second year $750,000; and the third year $1,000,000. At the time of sale, the amounts to be included in the calculation would be as follows.

Year	Projected Rental Revenue	Safety Factor (33⅓%)	Adjusted Projected Rental Revenue
1	$ 600,000	$ 200,000	$400,000
2	750,000	250,000	500,000
3	1,000,000	333,333	666,667

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: The content of 360-20-55-49 will be superseded upon transition, together with its heading.

>>>Schedule C: Calculation of Adjusted Projected Rental Revenue

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-50 If at the time of sale there were signed lease agreements for $450,000, then the $450,000 would be used in Year 1 because it is greater than the adjusted projected rental revenue. The adjusted projected rental revenue for Years 2 and 3 would remain $500,000 and $666,667, respectively.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Example 3: Profit Recognition—Installment Method, with Debt Assumed by Buyer

360-20-55-51 This Example illustrates the guidance in paragraph 360-20-55-7. This Example has the following assumptions.

Cash down payment	$ 150,000
Second mortgage payable by buyer to seller (10-year amortization of principal plus interest)	350,000
Total cash to be received by seller	500,000
First mortgage assumed by buyer (20-year amortization of principal plus interest)	500,000
Total sales price and sales value	1,000,000
Cost	600,000
Total profit	$ 400,000

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
***Editor's Note**: The content of 360-20-55-51 will be superseded upon transition, together with its heading.*
>>**Example 3: Profit Recognition—Installment Method, with Debt Assumed by Buyer**
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-52 The initial investment is assumed to be inadequate for full profit recognition, and the installment method of accounting is assumed to be appropriate. It is also assumed that, after the down payment, the buyer pays $25,000 of principal on the first mortgage and $35,000 of principal on the second mortgage.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-53 Under the installment method, profit recognition attributable to the down payment is $60,000, representing 40% ($400,000/$1,000,000) of $150,000.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-54 Profit recognition attributable to the principal payments by the buyer on the first and second mortgages is $24,000, representing 40% of $60,000 ($25,000 + $35,000).

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Example 4: Profit Recognition with Various Forms of Financing

360-20-55-55 This Example illustrates the guidance in paragraphs 360-20-40-14 through 40-17 and 360-20-40-32. This Example has the following assumptions:

a. Sales price: $100

b. Seller's basis in property sold: $70

c. Initial investment requirement: 20%

d. All mortgage obligations meet the continuing investment requirements of this Subtopic.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: The content of 360-20-55-55 will be superseded upon transition, together with its heading.*

>>Example 4: Profit Recognition with Various Forms of Financing

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-56 The following table illustrates profit recognition with various forms of financing.

		Components of Cash Received by Seller at Closing						Profit Recognized at Date of Sale[c]		
Situation	Cash Received by Seller at Closing	Buyer's Initial Investment	Buyer's Independent 1st Mortgage	Assumption of Seller's Nonrecourse Mortgage	Seller Financing[a]	Assumption of Seller's Recourse Mortgage [b]	Recognition Under Paragraph(s) in Topic/Subtopic/ Section 360-20-40	Full Accrual	Installment	Cost Recovery
1	$ 100	$ 20	$ 80				15 through 16	$ 30		
2	100	-	100				15 through 16	30		
3	20	20		$ 80			15 through 16	30		
4	-	-		100			15 through 16	30		
5	20	20			80(1)		17	30		
6	20	20				$ 80	17	30		
7	80	20	60		20(2)		17	30		
8	20	20		60	20(2)		17	30		
9	20	20			20(2)	60	17	30		
10	-	-				100	32		$ -	$ -
11	-	-			100(1)		32		-	-
12	-	-			20(2)	80	32		-	-
13	80	-	80		20(2)		32		10	10
14	10	10			90(1)		32		3	-
15	10	10				90	32		3	-
16	90	10	80		10(2)		32		20	20
17	10	10		80	10(2)		32		20	20
18	10	10			10(2)	80	32		3	-

(a) First or second mortgage indicated in parentheses.

(b) Seller remains contingently liable.

(c) The profit recognized under the reduced profit method is dependent on various interest rates and payment terms. An illustration is not presented due to the complexity of those factors and the belief that this method is not frequently used in practice. Under this method, the profit recognized at the consummation of the sale would be less than under the full accrual method, but normally more than the amount under the installment method.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Example 5: Determining Whether Equipment Is Integral Equipment

360-20-55-57 This Example illustrates the guidance in paragraphs 360-20-15-4 through 15-8.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: The content of 360-20-55-57 will be superseded upon transition, together with its heading.*

>>Example 5: Determining Whether Equipment Is Integral Equipment

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-58 Entity A leases equipment to Entity B for use in a manufacturing facility. The fair value of the production equipment (installed) at lease inception is $1,075,000. The estimated cost to remove the equipment after installation (estimate is as of the beginning of the lease term) is $80,000, which includes $30,000 to repair damage to the existing location as a result of the removal. The estimated cost to ship and reinstall the equipment at a new site (estimated as of the beginning of the lease term) is $85,000. For this Example, assume that the equipment would have the same fair value (installed) to the seller and a potential buyer. Therefore, there is no diminution in fair value of the equipment beyond the discount a purchaser would presumably require to cover the cost to ship and reinstall the equipment.

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-59 Entity A would assess whether or not the production equipment is integral equipment as follows: ($80,000 + $85,000) ÷ $1,075,000 = 15.3 percent. Because the cost of removal combined with the diminution in value exceeds 10 percent of the fair value (installed) of the production equipment, the cost to remove the equipment and use it separately is deemed to be significant. Therefore, the production equipment is integral equipment.

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Example 6: The Reduced-Profit Method

360-20-55-60 This Example illustrates the reduced-profit method of accounting for the sale of real estate (see paragraph 360-20-55-16).

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note*: The content of 360-20-55-60 will be superseded upon transition, together with its heading.*

>>**Example 6: The Reduced-Profit Method**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-61 This Example assumes a sale of land that cost the seller $800,000 and is being sold for $1,000,000 with the following financing.

Buyer's initial investment	$ 250,000
First mortgage note payable to an independent lending institution (Terms—15 percent interest payable annually over 20 years: $79,881 per year including principal and interest)	500,000
Second mortgage note payable to seller (Terms—12 percent interest payable annually over 25 years: $31,875 per year including principal and interest)	250,000
Total selling price	$ 1,000,000

PENDING CONTENT

Transition Date: Ⓟ December 16, 2018; Ⓝ December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-62 The amortization term of the second mortgage (25 years) exceeds the term permitted by paragraphs 360-20-40-19 through 40-20 (20 years for sales of land). It is assumed that the payments by the buyer each year will meet the requirement in

paragraphs 360-20-40-33 through 40-34, that the reduced-profit method is to be applied, and that the market interest rate is 16 percent.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-63 The present value of $31,875 per year for 20 years at a market rate of 16 percent is $31,875 x 5.92884 = $188,982.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-64 The profit to be recognized at the time of sale is reduced by the difference between the face amount of the seller's receivable ($250,000) and the reduced amount ($188,982), or $61,018. The profit recognized at the time of sale is $1,000,000 (sales price) minus $800,000 (cost) minus $61,018, or $138,982. Additional profit of $61,018 is recognized as the second mortgage payments are received in Years 21 through 25.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

· > Example 7: Profit Recognition Is Precluded Under Full Accrual Method when Part of Down Payment Involves a Transfer of Ownership Interest in Pledged Security

360-20-55-65 This Example illustrates the guidance in paragraph 360-20-40-9.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *The content of 360-20-55-65 will be superseded upon transition, together with its heading.*

>>**Example 7: Profit Recognition Is Precluded Under Full Accrual Method when Part of Down Payment Involves a Transfer of Ownership Interest in Pledged Security**

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-66 In this Example, before a real estate sale, Party A has a 75 percent interest in the real estate and Party B has the other 25 percent interest. Party A sells its interest to Party B and receives a 10 percent cash down payment and a note for the balance of the sales price. For this transaction, paragraph 360-20-55-2 specifies a minimum required initial investment of 15 percent of the sales value. Party B pledges the 100 percent interest in the property as security for the note to Party A; no debt is outstanding on the property.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1
Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-67 This Subtopic precludes profit recognition under the full accrual method for this transaction because purchased property or other assets pledged as security for a note should not be included as part of the buyer's initial investment.

PENDING CONTENT

Transition Date: (P) December 16, 2018; (N) December 16, 2021 | **Transition Guidance:** 842-10-65-1

Paragraph superseded by Accounting Standards Update No. 2016-02.

360-20-55-68 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-69 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-70 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-71 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-72 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-73 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-74 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-75 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-76 Paragraph superseded by Accounting Standards Update No. 2014-09.

360-20-55-77 Paragraph superseded by Accounting Standards Update No. 2014-09.

60 Relationships

General Note:The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General Note on Property, Plant, and Equipment—Real Estate Sales: Upon the effective date of Accounting Standards Update 2014-09, the title of this Subtopic will change to Property, Plant, and Equipment—Real Estate Sales—Sale-Leaseback Accounting.

General

> Property, Plant, And Equipment

360-20-60-1 For guidance concerning environmental exit costs that may be incurred if an asset is sold, is abandoned, or ceases operations, see the Impairment or Disposal of Long-Lived Assets Subsection of Section 360-10-55.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *Paragraph 360-20-60-1 will be superseded upon transition, together with its heading:*

> **Property, Plant, And Equipment**

Paragraph superseded by Accounting Standards Update No. 2016-02.

> Leases

360-20-60-2 For the evaluation of whether leases of certain integral equipment meet the ownership transfer requirements of Topic 840, see the Lessors Subsection of Section 840-10-25.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *Paragraph 360-20-60-2 will be superseded upon transition, together with its heading:*

> **Leases**

Paragraph superseded by Accounting Standards Update No. 2016-02.

> Real Estate—General

360-20-60-3 For the accounting or internal costs relating to real estate property acquisitions, see the Real Estate Project Costs Subsection of Section 970-340-25.

PENDING CONTENT

Transition Date: P December 16, 2018; N December 16, 2021 | **Transition Guidance:** 842-10-65-1

Editor's Note: *Paragraph 360-20-60-3 will be superseded upon transition, together with its heading:*

> Real Estate—General

Paragraph superseded by Accounting Standards Update No. 2016-02.

65 Transition and Open Effective Date Information

General Note:The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General Note on Property, Plant, and Equipment—Real Estate Sales:Upon the effective date of Accounting Standards Update 2014-09, the title of this Subtopic will change to Property, Plant, and Equipment—Real Estate Sales—Sale-Leaseback Accounting.

General

360-20-65-1 Paragraph superseded on 03/23/2010 after the end of the transition period stated in EITF Issue No. 07-6, "Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66 When the Agreement Includes a Buy-Sell Clause."

360-20-65-2 Paragraph superseded on 06/26/2015 after the end of the transition period stated in Accounting Standards Update No. 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification*.